Supreme Court of the U[illegible]

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No. 1[illegible]

THE UNITED STATES OF AMERICA,

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Supreme Court of the United States.

OCTOBER TERM, 1926.

No. 113.

THE UNITED STATES OF AMERICA,
Appellant,

v.

GENERAL ELECTRIC COMPANY, WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, and WESTINGHOUSE LAMP COMPANY.

BRIEF FOR GENERAL ELECTRIC COMPANY.

This is an appeal from a final decree of the District Court of the United States for the Northern District of Ohio, dismissing the petition. The opinion of the District Court is at page 867 of the Transcript; it is not yet reported.

This suit, for alleged violation of the provisions of the Sherman Anti-Trust Act, was brought against the General Electric Company (to which we shall refer as the General Company), and against the Westinghouse Electric & Manufacturing Company and the Westinghouse Lamp Company, to which, collectively, we shall refer as the Westinghouse Company, this being the manner in which they are designated in the Petition.

The case was heard in the District Court on a Record composed of the pleadings (Tr. pp. 2-84), a stipulation (Tr. pp. 85-110) and the documents referred to in the stipulation (Tr. pp. 110A-865).

The controversy relates to the businesses of the several defendants in incandescent electric lamps. All, except an inconsiderable fraction, of such lamps made by anyone in this country, are lamps having filaments made of tungsten. The General Company is a manufacturer of tungsten filament lamps embodying the inventions of various patents owned by it, the most important of which have repeatedly and uniformly been sustained by the Courts in a long series of litigations. While the Government does not concede the validity of these patents, "it does not in these proceedings attack them" (Tr p. 5).

The General Company has granted a non-exclusive license under its patents to the Westinghouse Company, and has also granted non-exclusive licenses to thirteen other manufacturers in this country.

During all of the twelve years immediately preceding the filing of this suit the General Company had been marketing a large portion of the lamps made by it through its own sales offices and salaried salesmen, the sales being made to the ultimate consumer or user; the rest of its lamps were consigned to agents throughout the country, who sold them to the ultimate user on a commission basis.

The complaint of the Government in this action is limited to two issues: *first*, that the General Company's distribution of a portion of its product through agents rather than through sales to wholesalers and jobbers is unlawful, and *second*, that the license granted by the General Company to the Westinghouse Company, whereby the latter is permitted to make and vend electric lamps under these patents, is contrary to law.

The Petition alleges (Tr. p. 16), with reference to the General Company's distribution of a portion of its product through agents, that

> "this scheme was created as a device to defeat the provisions of the Antitrust Act, which prohibits a manufacturer from fixing resale prices of his goods, and to prevent any competition whatever between those who are engaged in the distribution of electric lamps manufac-

tured by it, and that such purpose has been fully accomplished thereby. Plaintiff further alleges that said scheme or system of contracts constitutes within itself an unlawful combination or conspiracy in restraint of trade in violation of said Antitrust Act, whether those who handle said defendant's lamps be technically agents or not, because it necessarily accomplishes the same purpose as would be accomplished by a system of contracts under which the dealers in lamps were purchasers and their resale prices were fixed by the contracts."

The position of the Government, on this branch of the case, seems, in essence, to be that the General Company should be *forced*, by law, to sell its lamps to jobbers and dealers, and that the public is *legally entitled* to whatever benefits may be supposed to result from competition as between such jobbers and dealers who would thus become the owners of the lamps made by the General Company.

The position of the General Company is that its method of distribution of its lamps is normal, economically sound and of benefit to the consuming public, and that such method of dealing with its own property is entirely lawful; the General Company, if it elects to sell its lamps (as it does elect), may sell them to whom it chooses and at such prices as it may choose to ask for them; it may sell to one class of persons (such as users) and to no others, if it sees fit to adopt that policy. Its methods of distribution and sale are methods normally used in the distribution of articles of merchandise to the ultimate consumer.

There is no allegation in the Petition that the contracts in question are not *bona fide*, genuine agency contracts, as contrasted with sales or conditional sales contracts; and no such issue is attempted to be presented in the assignment of errors, unless it can be considered to be involved in the allegation in the second assignment of errors (Tr. p. 873) to the effect that the defendant by such contracts did "actually fix the *resale* prices of lamps produced by it". The Government, in its brief, however, asserts (page 2) that "these distributors are not *bona fide* agents", and (page 32) that the contracts are "not genuine agency contracts". But, even if

it were open to the Government, under the pleadings and assignment of errors, to attack the legal sufficiency of the contracts as true agency contracts, such attack could not prevail (see pp. 16-20; 23-28, *infra*).

With reference to the license from the General Company to the Westinghouse Company (Tr. p. 111), which is the only license attacked by the Government in this case, the Petition alleges (Tr., p. 21) that

> "Said agreement between defendants was an unlawful contract and combination in restraint of trade, for the following reasons: *First*, it consolidated the patent monopolies possessed by the defendants and enlarged in scope and extended in time the monopoly of manufacturing lamps of a specific character possessed by each of defendants under patents owned by it alone. *Second*, it provided in specific terms the method by which the defendant Westinghouse Company should distribute its goods, and thereby prevented competition between defendants in method of distribution. *Third*, it provided in effect that the lamps made by the Westinghouse Company should be sold at the same prices at which those made by the General Electric Company were sold, and thus destroyed all competition between defendants as to prices. And *fourth*, as heretofore alleged, the system which the Westinghouse Company thus obligated itself to use is but a subterfuge and a device to fix resale prices and destroy all competition between those handling the lamps made by it."

The General Company's position on this branch of the case is that it owned, and owns, valid patents covering the tungsten filament lamp broadly and fundamentally, as is admitted by the Government at pages 5-6 of its brief; that, being such owner, it could legally exclude all others from making and selling such a lamp—as the Government says at page 7 of its brief, the General Company through these patents "can control 100% of the electric-lamp business of the United States"; that it is legally entitled to waive that right of exclusion in favor of anyone it may choose and to only such extent as it may choose and may, in exchange, receive royalty payments and non-exclusive licenses under the patents of the licensee; that such exchange of *non-*

exclusive licenses cannot possibly have the effect of consolidating "patent monopolies", nor enlarging the scope of any patent monopoly, but quite the contrary; and that, in granting licenses, the General Company was and is legally entitled to make such provision as would reasonably ensure that the licensee's operation under the license shall not unduly interfere, either in method of distribution or in prices, with its own manufacture and sale under its patents.

The prayer of the Petition is as follows (Tr. pp. 23-24), and in here quoting it, we have rearranged the Second, Third and Fourth clauses of Paragraph X so that they will read consecutively:

> "That on the final hearing it be adjudged and decreed that
>
> "(1) the system of contracts existing between the General Electric Company and the several parties engaged in the distribution of the lamps manufactured by said defendant constitute an unlawful combination and conspiracy in restraint of trade, in violation of the said act of July 2, 1890, known as the Antitrust Act, for the reasons heretofore stated, and that the same be declared null and void; (2) that the system of contracts existing between the Westinghouse Company and the several parties engaged in distributing the lamps manufactured by it constitute an unlawful combination in violation of the provisions of said act of July 2, 1890, for the reasons above stated, and that the same be declared null and void;
>
> "That each of the defendants be perpetually enjoined from further enforcing the contracts heretofore made by it with its said salesmen or alleged agents, and from making or entering into any contract or contracts of the same or a similar character with any person, partnership, or corporation, engaged, or hereinafter to be engaged, in the distribution of its lamps; and that it be further enjoined from making any contract of any character with any dealer engaged in handling its lamps, which will have the effect of fixing a sale price thereof after they shall pass out of the hands of the manufacturer.
>
> "(3) that the license contract and agreement dated March 1, 1912, between the defendants General Electric Company and the Westinghouse Company be de-

clared an unlawful contract and combination in violation of said act of July 2, 1890, for the reasons above stated, and that the same be declared null and void.

"That defendants be perpetually enjoined from further enforcing, or recognizing in any way the validity of, the license contract of March 1, 1912, and from entering into any contract of a similar character to, or that will have an effect like unto the effect of, said contract."

It will, accordingly, be seen that a consideration of this case naturally divides itself into two separate and distinct parts, namely, *first*, the distribution of a part of the lamp product of each defendant through agents, and, *second*, the provisions of the license from the General Company to the Westinghouse Company.

As to the first part of this case, the District Court held (Tr. pp. 867-869) that the agents are in fact *bona fide* agents, that the consignments of lamps to them are genuine consignments of the General Company's products, that the title to the lamps remains in the General Company until sale and delivery is made to the ultimate consumer, that a manufacturer may market his product direct to the ultimate consumer and may do so through genuine agents, that he may fix the price at which he shall sell and may select his agents and fix the price at which they shall sell the goods owned by the manufacturer, and that a system of such agency contracts, adequate in size to market the product, is not objectionable from any point of view.

On the second part, or branch, of this case, the District Court held (Tr. pp. 869-872) that the Westinghouse Company's business in tungsten lamps owed its existence to the license under the fundamental patents of the General Company, that without such license its business could not continue, that the restrictions in the license are reasonable and proper, and that to set aside the license would put the Westinghouse Company out of the lamp business and would authorize, if not compel, the General Company to take over the entire business in the manufacture and sale of tungsten lamps which has been carried on by the Westinghouse Company.

PART I.

THE METHOD OF DISTRIBUTION OF GENERAL COMPANY'S LAMPS.

There are two channels of distribution of the tungsten filament lamps made by the General Company. In one such channel, the sales are made entirely through the Company's own sales offices and salaried employees; in the other, lamps are distributed through agents to whom the lamps are consigned by the General Company and by whom they are sold to the user, the agents receiving as their compensation a commission on the sales.

It was in 1912 that the General Company adopted the policy of selling its lamps to users only (except that lamps are sold to central lighting companies for use on the lines to which they supply current, and some miniature lamps are sold to dealers for resale) as distinguished from selling them to jobbers and dealers who, in turn, would sell the lamps, thus acquired and owned by them, to the ultimate users. That policy has been carried out continuously and openly, and in substantially the same manner, from that day to this—namely, during the fourteen years last past (Tr. p. 99). It was adopted with full knowledge of the Department of Justice in 1912 (Tr. p. 98), and has, since that time, been examined by the Federal Trade Commission whose Chief Examiner in 1920 wrote as follows (Tr. p. 865):

> "The Commission, of course, recognized that your Company had the right to prescribe the prices at which its own agents could sell its products, and likewise the right to prescribe prices to be maintained by its licensees as a condition upon which such licensees could sell the articles protected by its patent."

There is nothing unusual about the General Company's method of distribution. It proceeds along entirely normal lines.

Before modern methods of transportation were developed, manufacturers sold their products direct from factory to the consumer. Then, as adequate means of transportation extended the field, it became necessary to use branch offices or middlemen in the distribution of the products. It has always been an established rule of merchandising that the jobber and retailer were useful only to the extent that they facilitated an economic flow of the merchandise from the manufacturer to the user. There is not now and never has been any thought that the jobber or retailer had an inherent right to handle the distribution of the manufacturer's merchandise, much less that he had an inherent right to purchase it for resale. It has always been recognized that the manufacturer had the exclusive right of distributing his product to the user through whatever channel he may choose. So long as the manufacturer holds the title to the product, he may sell to whomsoever he wishes. Nothing in the law compels the manufacturer to sell to the middleman, and he has always had the right to sell to the consumer direct. It is for the manufacturer to determine how he can best serve the public and build up a good will in his product.

The long existing and common methods of distributing general articles of merchandise to those who wish to consume or use them are well known.

In many cases, the manufacturer sells to the consumer or user exclusively through its own sales offices, frequently doing a mail-order business also. When, however, the article in question is one which is used or consumed in all parts of the country, this method of distribution may not furnish the most economical means of reaching all of the users.

In many cases the manufacturer supplements its sales to users from its own offices, or makes its entire distribution, by selling to jobbers in the principal business centers who, in turn, sell to dealers throughout their territory.

In still other cases the manufacturer, in the distribution to consumers of all or a part of its product, makes use of agents, to whom it consigns goods which the agent sells on commission. The general course of business and the usual

methods of transacting it, are matters of which the Court will take judicial notice. In *United States* v. *Ferger*, 250 U. S. 199, 204, it was held that the fact that bills of lading are used as instruments of credit in "a vast volume of interstate commerce" * * *

> "is a matter of common knowledge of which we may take judicial notice."

Business methods are reflected in decisions of the courts, and it is proper for the court to obtain information as to business methods by resorting to reported cases in which actual business transactions were considered. In *Jones* v. *United States*, 137 U. S. 202, 216, the court said:

> "In the ascertainment of any facts of which they are bound to take judicial notice, as in the decisions of matters of law which it is their office to know, the judges may refresh their memory and inform their conscience from such sources as they deem most trustworthy."

As actual transactions are considered in decided cases, the reports of such cases would seem to be a most trustworthy source of information.

The cases cited in the Appendix to this brief (p. 94, *infra*) disclose that numerous commodities are and long have been consigned to agents for sale. In other words, consignment is a normal method of distribution in common use.

The General Company, when it adopted its present selling policy in 1912, combined two of the foregoing well known methods of distributing merchandise. Through its own sales offices in some thirty of the principal cities in the United States and through its branch offices and salaried salesmen, it sells its lamps to those consumers or users whom it can economically reach, and, through agents to whom it consigns its lamps, it sells lamps to those consumers and users whom it cannot economically reach through its own offices (Tr. pp. 92, 94, Par. *a*).

A pictorial illustration of the course of the flow of lamps from the General Company's factories to the ultimate user is given on the sheet here inserted. As is there indicated, a

portion of the total number of lamps is sold to the ultimate user through the sales offices and branch offices and salaried salesmen of the Company, and the rest are sold to the ultimate user by the agents, which we shall soon describe in detail. In one channel of distribution, *salaried* salesmen are used; in the other, salesmen selling on *commission* are used.

Lamps of various sizes and of many types, such as the "large" lamps (which are those commonly used in residence, office and street lighting and in motion picture projectors) and "miniature" lamps. The great bulk of the commerce in lamps (about 80%) consists in the so-called large lamps.

Considering, for simplicity of statement, the large lamps and taking the average figures for the years 1921, 1922 and 1923, the lamps made by the General Company are distributed as follows (Tr. p. 92):

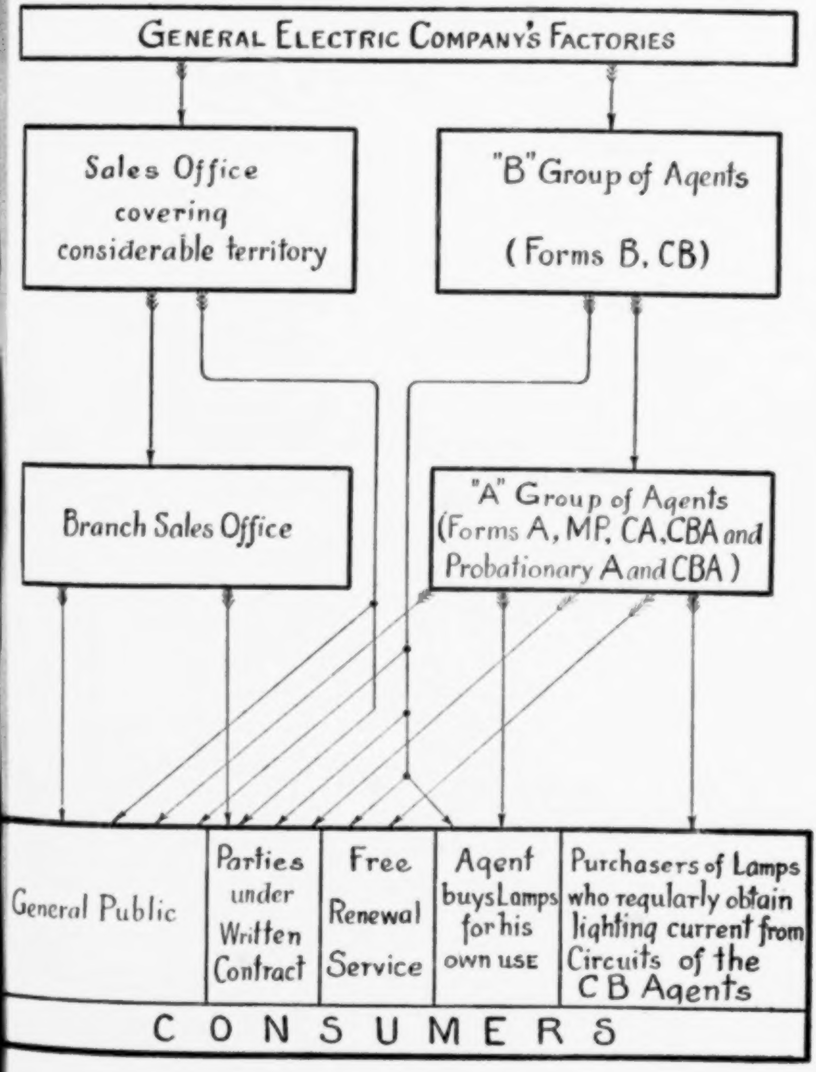
About 22% of the General Company's lamp product is sold and delivered by it from its own sales offices and warehouses to the consumer or user. These are sales to large consumers who may readily and economically be reached by the General Company and who are in such geographical locations that their requirements may efficiently be supplied from its own factories and warehouses.

About 37% of the General Company's lamp product is sold by it to certain other large consumers with whom the contracts for sale are made with the General Company, but the contracts are filled by the local agents, from their local stocks and warehouses, on the same prices and terms as though the General Company shipped the lamps direct as in the case of the 22% above mentioned. This is in the interest of good "service", and is an economical way of obtaining prompt deliveries without the General Company being put to the expense of establishing numerous warehouses to cover all the localities and of operating those warehouses.

The remaining 41% of the General Company's lamp product is sold through its various agents throughout this country.

FLOW OF LAMPS

FROM GENERAL ELECTRIC COMPANY'S FACTORIES AND WAREHOUSES TO CONSUMERS



Who the Agents Are, and How Selected.

The agents through whom the General Company sells to consumers a portion of its lamp product, are persons and organizations who make a specialty of selling electrical or other merchandise in their various localities.

In most of those localities there is not enough business in lamps alone to warrant a person or organization in engaging in the sale of lamps only; the sales would be small and the overhead expense intolerably large. But the sales can be economically and efficiently effected by one who deals in other products also, so that the overhead expense on the lamp sales is diminished.

The General Company knows, or can readily ascertain from time to time, who are the reliable *large* distributors in any considerable territory. It appoints some of these large distributors as its agents, under contracts which will be considered in a moment. These are known as the "B" agents of whom there are over 400 (Tr. pp. 95, 97).

The large distributors—the "B" agents—recommend to the General Company various concerns, in their respective territories, whom they regard as likely to be efficient and reliable distributors in one or another locality. The General Company, if it finds these recommendations warranted, appoints them as its so-called "A" agents, under contracts which we shall soon examine; and it sometimes makes such appointments independently of recommendations made by the "B" agents. There are over 21,000 of these "A" agents scattered throughout the country (Tr. pp. 95, 97).

The Government comments on the fact that those who have been appointed as agents are established jobbers and dealers in electrical supplies and are of the same class of persons as those to whom the General Company sold its lamps prior to 1912 when the agency method of distribution was adopted. That is inevitably the fact. Such persons possess established facilities for distribution in their respective localities; and it would be disturbing to the consuming

public and uneconomic for the General Company to discard those established distributors with whom the public is in the habit of dealing and to attempt to create and train new local distributors throughout the United States.

THE CONTRACT OF APPOINTMENT OF THE "B" AGENTS.

Each "B" agent is appointed by the General Company by the execution and delivery of a contract.

We shall here follow through one of these contracts, selecting for this purpose the one used in appointing a concern an agent for the sale of the so-called "large" lamps which constitute by far the greater part of the business. The contracts with reference to other types of lamps are essentially the same, and should require no separate detailed consideration; with this the Government agrees, saying at page 7 of its brief, that "the manner in which large electric lamps, which constitute about 80% of the business, are distributed is characteristic of the trade as a whole".*

The "Appointment of Agent, Large Incandescent Mazda Lamps," known as "Form B", provides (Tr. p. 229):

> "The General Electric Company, a New York corporation (hereinafter called the Manufacturer) through its Edison Lamp Works, *hereby appoints* .... of .... (hereinafter called Agent) an
>
> "*Agent to sell, for it*, large incandescent Edison Mazda lamps manufactured under United States Letters Patent,† of the sizes, types and classes listed in the Manufacturer's schedules attached hereto, upon the terms and subject to the conditions herein set forth; and said Agent hereby accepts the appointment and agrees to comply with said terms and to perform all conditions hereof."

* At other portions of its brief, the Government comments on the large number of classes of agency contracts which have been made. But this is due only to the diversified character of the lamp business and the many types of lamps. Thus, there are agency contracts with large-lamp distributors (such as the B and A agents) and with central lighting stations, and agency contracts with those who distribute motion picture lamps, automobile lamps, flashlight lamps, miniature lamps, etc.

† The validity of the agency contracts is not dependent upon the fact that the lamps are patented; but that they are patented emphasizes the propriety of this distribution method. See pp. 52-53, *infra*.

Clause 1 (Tr. p. 229) merely states the term of the ap pointment—one year from the stated date unless sooner terminated.

Clause 2 (Tr. p. 229) provides that the manufacturer is to maintain "on *consignment*" in the custody of the agent a stock of lamps, the sizes, types, classes and quantity of which and the length of time they are to remain in stock to be determined by the manufactarer. The manufacturer obviously retains full control over its lamps thus consigned to the agent, for the lamps are to be kept only in the agent's regular places of business where they may readily be inspected and identified by the manufacturer; all or any part of the consigned stock is to be returned to the manufacturer at any time it may so direct; the consigned lamps are "to be disposed of as herein provided," and the agent is to keep account books and records giving complete information as to its dealings in the General Company's lamps on consignment with it, all of such records being open to inspection by the manufacturer. "All of the lamps in such consigned stock shall be and remain the property of the manufacturer until the lamps are sold, and the proceeds of all lamps sold shall be held in trust for the benefit and for the account of the manufacturer until fully accounted for as hereinafter provided" (Tr. p. 229) (Clause 2).

The "B" Agent is authorized to deal with the General Company's lamps on consignment with it, in three and only three ways (Clause 3), namely (Tr. p. 231):

(*a*) to distribute lamps to those of the Manufacturers "A" Agents whom the "B" Agent may be given by the Manufacturer written notice of authority to serve;

(*b*) to sell lamps from the stock to any consumer, to the extent of his requirements, for immediate delivery at prices specified by the Manufacturer—the owner of the lamps; and

(*c*) to deliver lamps from the stock to any purchaser, under written contract with the Manufacturer, to whom the

"B" Agent may be given by the Manufacturer written authority to deliver lamps, at the prices and on the terms stated in the contract.

The Agent has no authority to dispose of any of the lamps "except as herein expressly provided, and shall not control or attempt to control the prices at which any purchaser shall sell any of such lamps" (Tr. p. 232).

In accordance with Clause 4 (Tr. p. 233), the Agent is, at stated frequent intervals, to make full reports to the Manufacturer as to its sales and deliveries of lamps from the consigned stock, and as to the lamps remaining in stock.

The Agent is to "pay all expense in the storage, cartage, transportation,* handling, sale and distribution of lamps hereunder," and all expense incident thereto and to the accounting therefor and to the collection of accounts created" (Clause 2, Tr. p. 230); and it "guarantees the return to the Manufacturer all unsold lamps in the custody of such agents as it shall have been authorized to serve hereunder", within a certain time after the termination of each appointment (Clause 2, Tr. p. 230) and is to "conform to the educational and engineering instructions of the Manufacturer, and shall advise with and instruct prospective purchasers as to the classes and types of lamps best suited to their several requirements and shall conduct the business hereunder to the satisfaction of the Manufacturer" (Clause 2, Tr. p. 231).

The Agent is to pay over to the Manufacturer not later than the fifteenth of each month, an amount equal to the total sales value, less the Agent's compensation, of all of the Manufacturer's lamps *sold* by it and by the agents served by it (Tr. p. 234):

(*a*) for which collections have been made, and

(*b*) for which the customers' accounts are *past* due, as the "Agent guarantees due and prompt payment" for all lamps sold by it from the Manufacturer's stocks, and

* The expense of "transportation" does not include the freight charges from the General Company to the agent. The General Company pays that freight (Tr. p. 285, 404).

(c) when rendering each inventory report for itself and for the agents whom it serves, the Agent is to pay to the Manufacturer the value of all of the Manufacturer's lamps "lost or missing from or damaged in the aforesaid stock" or in the stock in the custody of the agents whom it serves, as the Agent guarantees the due and prompt payment to the Manufacturer for all lamps so lost, missing or damaged in its stocks and in the stocks of the agents whom it serves.

The compensation of the Agent is stated in Clause 7 (Tr. p. 235). There is a Basic rate of compensation and there are certain Special, Supplementary and Additional Compensations for prompt and efficient service.

A Supplementary Compensation is allowed for prompt monthly inventory statements. If prompt payments are made "covering in full the lamps *sold* during the preceding month by the Agent and by the agents served by it, *whether or not such accounts have been collected*", a Special Compensation is allowed.

If, throughout the term of the appointment, the Agent has fully performed and accounted, and the stock of lamps on consignment with agents served has "turned", as provided, an Additional Compensation is allowed.

In accordance with Clause 8 (Tr. p. 240), if the Agent becomes insolvent or fails to make the reports and remittances provided for, or fails in any of its obligations, the appointment may be terminated.

On the expiration or termination of the appointment, all of the consigned lamps remaining unsold are to be delivered to the Manufacturer.

It is apparent from a reading of the contract that the lamps consigned to the Agent are to remain the property of the General Company until they are sold in accordance with the provisions of the contract; that the General Company at all times, until the lamps are sold, has full control over them; it never parts with title until the lamps are sold and it receives payments only with reference to completed sales; and the Agent guarantees the safe keeping of the General Company's lamps on consignment with it by compen-

sating it for lamps lost, missing from or damaged in the General Company's stock in its possession. As a matter of fact, the General Company has assumed all risk of fire, flood, obsolence and price decline, and carries whatever insurance is carried on the stocks of lamps in the hands of its agents and pays whatever taxes are assessed (Tr. p. 106, Par. *b*).

The Contract Appointing an "A" Agent.

Each "A" agent—the small distributor to whom the General Company consigns lamps from its stocks in the hands of the "B" agent—is, likewise, appointed by a contract between the "A" agent and the General Company.

The only sales which the "A" agent is authorized to make are to consumers for immediate delivery and to purchasers under written contract with the manufacturer, just as in the case of the "B" agent.

The contract with the "A" agent (Tr. p. 375) does not differ, in any respect essential in the present controversy, from that appointing the "B" agent and therefore need not here be reviewed in detail.

The Contracts are Contracts of Agency.

The General Company's contracts are true contracts of agency, as the Courts have specifically held.

When such contracts were first adopted by the General Company in 1912, they were essentially the same as those now existing, though slightly different in form. In *General Electric Company* v. *Brower*, 221 Fed. Rep. 597, one of those 1912 contracts was under examination, and it was held by the Circuit Court of Appeals for the Ninth Circuit to create a *bona fide* agency contract and not a contract of sale. The agent had become a bankrupt and the trustee refused to surrender the consigned lamps, contending that the contract constituted a conditional sale and was void as to creditors because it had not been recorded as required by the laws of the State of Washington. The contract is set forth in full in the report of the decision.

These contracts have also been considered by the Supreme Courts of West Virginia and Texas and by the Court of Appeals of Missouri, and in every instance were held to be true contracts of agency. *General Electric Co.* v. *Martin*, 99 W. Va. 519, 130 S. E. 299 (1925); *Southwest General Electric Co.* v. *Nunn Electric Co.*, 283 S. W. 781 (Supreme Court of Texas, 1926); *General Electric Co.* v. *Commercial Electrical Supply Co.*, 191 S. W. 1106 (Missouri Court of Appeals, 1917). In the case last cited it was held that neither the contract nor the course of dealing under it created the relation of debtor and creditor as between the agent and the General Company.

The contracts are obviously contracts of agency, and not contracts of sale. That the lamps consigned to the agent belong, and continue to belong, to the General Company until they are sold, runs all through the contracts. The General Company receives no money for lamps sold *until after they are sold;* it can, under the provision of the contracts, have access to the stock at all times, and can require all or any part of the unsold stock to be returned to it at any time and, on cancellation or expiration of the contract, the lamps remaining in the stock must be returned to the General Company. A test frequently applied in considering contracts of this kind to determine whether they constitute true contracts of agency, is:—Is there any agreement or obligation, express or implied, on the part of the consignee to buy the goods and pay the purchase price?* That test was applied by this court in *Ludvigh* v. *American Woolen Co.*, 231 U. S. 522, 527, in which a contract was held to be one of agency. This court said:

> "We think an examination of * * * [certain provisions of the contract] * * * shows most clearly that the Niagara Company *was not obliged to pay for goods in its possession and unsold*". (Italics ours.)

* *In re Columbus Buggy Co.*, 143 Fed. 859, 860 (C. C. A. 8); *Union Stockyards Co.* v. *Western L. & C. Co.*, 59 Fed. 49, 53; *Bank* v. *Goodyear*, 90 Ga. 711; *Eldridge* v. *Benson*, 61 Mass. (7 Cush.) 483, 485; *Norton* v. *Fisher*, 113 Iowa 595, 596.

Again (p. 530):

> "We * * hold, as was found in the Circuit Court of Appeals, that it was what it purported to be—a consignment arrangement with the net proceeds of sales to be accounted for to the consignor, *and with the right to return the unsold goods*". (Italics ours.)

The General Company's agency contracts will be searched in vain for any provision which obligates the agent to pay for lamps in his possession and unsold. He has an absolute right to return them. The contracts provide (Tr. 241, 383):

> "Immediately upon any such expiration or termination, the Agent shall deliver to the Manufacturer all lamps consigned hereunder which remain unsold".

That the Agents guarantee "the due and prompt payment to the manufacturer for all sales made hereunder" and agree to remit for all lamps sold to customers whose accounts covering such lamps are "*past*" due, merely means that they are *del credere* agents. The Agent is *required* to remit on only such accounts as are *past* due; he *may* remit on lamps sold whether or not the account is due—he has the option—and, if he exercises the option, he receives a special compensation. But the *obligation* of the agent is merely that of a *del credere agent*. Professor Mechem in his exhaustive work on Agency (2nd Edition 1914) says in Sec. 2534:

> "*Del credere commission*—A factor is said to act under a *del credere* commission when, in consideration of an additional commission, he guarantees the payment to the principal of debts that become due through his agency."
>
> * * * * * *
>
> "The *del credere* commission, of course, does not mean that the factor agrees that he will sell the goods; or that he will either sell them or pay for them, or that he will pay for those which he does not sell,—though special contracts of that sort are sometimes made;—but merely that, if he does sell them, the owner shall get his pay for them."

"A factor acting *del credere*, is not on that account relieved from any of the duties which attach to other factors, nor is he clothed with any greater authority."

"Neither does the factor by acting under a *del credere* commission cease to be an agent, nor does the principal lose his title to the goods or their proceeds or the right to pursue the purchaser for the price."

In the case of *In Re Taft*, 133 Fed. Rep. 511, 514 (1904), decided by the Circuit Court of Appeals of the Sixth Circuit, the receiver of a bankrupt commission merchant claimed money which had been received by the commission merchant in payment for consigned goods. Judge (subsequently Justice) Lurton said:

"The real defense made by the bankrupt's receiver was that the contract under which this carload of stock was shipped to and received by the bankrupt was not the ordinary arrangement between an owner and a commission sales merchant. To make out this defense, it was shown that the custom of live stock commission men at Cleveland was to assume all the risks of payment of the price by the buyer and account to the owner, whether the price was collected or not. But such a custom would only convert the bankrupt into an agent upon a *del credere* commission. One who sells upon a *del credere* commission is supposed to receive an additional consideration for the risk incurred by guaranteeing the purchaser. *He is at last nothing but a guarantor, and his relation as agent is not converted into that of a purchaser by the fact that his sales, under local custom, are del credere sales.* The principal may sue the purchaser for the price and in his own name." (Citing Story on Agency and other authorities.) There was no evidence to show that Eirick (the bankrupt) "should become definitely and primarily the purchaser of this stock on arrival or upon a sale, *other than is inferable from the evidence of a custom to assume liability for the price when a sale should occur.* That is clearly not enough to convert such an agent into a buyer."

In *Ludvigh* v. *American Woolen Co.*, 231 U. S. 522, 524, 525 (1913), goods were consigned for sale, the consignee

agreeing to guarantee payment for goods sold on credit. Nevertheless the transaction was held to be an agency and not a sale.

And the requirement that the agent shall pay for lost, missing or damaged lamps does not affect the agency character of the contract; that is an ordinary provision in contracts of this kind. Incandescent lamps are valuable, fragile and delicate. The provision requiring agents to pay for lost, missing and damaged lamps was obviously inserted to insure proper care, safeguarding and handling of the General Company's property by the agent. It does not convert the agency into a sale. In *Sturm* v. *Boker*, 150 U. S. 312, wherein a consignment of goods was held to create an agency to sell and not a sale, this court said at page 330:

> "A bailee may, however, enlarge his legal responsibility by contract, express or fairly implied, and render himself liable for the loss or destruction of the goods committed to his care—the bailment or compensation to be received therefor being a sufficient consideration for such an undertaking."

Nor does the provision requiring the agent to pay certain expenses affect the agency character of the contract. In *Sturm* v. *Boker*, last cited, the agent agreed to pay the expense of transporting goods to Mexico, and if not sold, to return the goods to the consignor in New York free of expense. Nevertheless, this court (pp. 315, 330, 331) held the transaction to be an agency to sell and not a sale.

In *General Electric Co.* v. *Brower*, 221 Fed. 597, 601, it was contended that the provision for these expenses destroyed the agency character of the contract, but the court held that it had no such effect.

The Operations Under these Agency Contracts:

Perhaps it *might* be the case that though the contracts, as contracts, create a true agency relation, the actual operation thereunder might be of quite another character. But that is not the situation here.

The General Company's "distribution and sales of its lamps through agents are carried out in accordance with the terms of said contracts" (Tr. p. 106, Par. *a*).

This means that the General Company never parts with title to any of its lamps, sent to agents, until they are sold by the agents. It carries the entire investment; it receives nothing from any agent until after the agent has sold the lamps, lost them or damaged them (the agent being responsible for the safe keeping of the lamps while on consignment with it); the agents make no advances for lamps on consignment and no deposits against remittances; the proceeds of all lamps sold are held in trust for the benefit and account of the General Company; the agents pay over to the manufacturer the amounts collected from sales and the amounts owing from customers whose accounts were past due on the first day of the month, less the agents' compensation, and may, if they so elect, remit for all lamps sold and delivered during the preceding calendar month and, for so doing, are entitled to a special compensation.

Moreover, the General Company actually does assume all risks of fire, flood, obsolescence and price declines, carries whatever insurance is carried on the stocks, and pays the taxes assessed on the stocks (Tr. p. 106, Par. *b*).

So the situation which is here presented is one in which not only are the contracts true contracts of agency, but also the actual operations under those contracts are strictly in consonance with the agency relation. There are no sales except to the ultimate user. By the terms of the contracts, the agent "shall not control or attempt to control the price at which any purchaser shall sell any of such lamps" (Tr. p. 232), and the business is "carried out in accordance with the terms of said contracts" (Tr. p. 106, Par. *a*).

So no question of "resale" prices is presented, or could be presented, in this case.

The Method of Distribution is Economically Sound.

The distribution of a portion of the defendant's lamp product through its agents, which method of distribution the General Company has used continuously during the last fourteen years, has proved to be highly economical, and beneficial to the consuming public in reducing the costs which are necessarily to be figured in the selling price of any article of merchandise.

It cuts down costs in various ways. For instance:

(*a*) The General Company's losses, in 1920, 1921 and 1922, through failure of agents to remit, amounted to only about five one-hundredths of one per cent. of the sales through agents, which was less than the General Company's losses through bad accounts before it began using agents in the sale of its lamps (Tr. p. 106, Par. *c*).

(*b*) The frequent reports from the agents as to sales and quantity of lamps remaining unsold on consignment, enables the General Company at all times to know the consumer's demand, which is the real demand. Therefore it can regulate its purchases of raw material, its employment of labor and its factory output to that real demand and thus maintain a comparatively even, and therefore economical, production and avoid extreme fluctuations in labor thereby maintaining a continuity of employment so important in the lives of the workers and of economic advantage to the industry and the purchasing public (Tr. p. 107, Par. *e*).

(*c*) Losses due to obsolesence are reduced. Electric lamps are still being rapidly developed and improved in type and efficiency, and lamps long held in stock would become obsolete and of decreased value. The reports received from agents continually show what types and sizes are slow moving in one locality and in demand in another, and the General Company can shift its lamps on consignment accordingly. In 1923 alone, nearly 2,500,000 lamps were thus transferred from stocks in the hands of agents in certain localities to stocks in the hands of agents in other localities (Tr. p. 107, Par *f*).

Moreover, as the General Company can regulate the kinds of lamps which remain on consignment with its agents, it takes care that, in so far as practicable, each agent shall have only lamps best suited to the electric voltages on the lighting circuits in the locality which that agent serves (Tr. p. 107, Par. *g*).

The portion of the purchasing consumer's dollar expended on the General Company's distribution through agents is, on the average, materially less than the portion of that dollar expended in the distribution of other articles of merchandise through sales to jobbers and dealers (Tr. p. 107, Par. *d*).

And the public is receiving the benefit of the above mentioned savings in costs. Though, as all of us unfortunately know, the period since 1914 has been a period of increasing costs in substantially all lines of merchandise, the price which the consumer now pays for tungsten lamps is as low as, or lower than, the prices at which tungsten lamps have ever previously been sold; moreover, the present lamps have been improved and are of increased usefulness to the user (Tr. p. 110, Par. 16).

Nor has the agency method of distribution tended to increase the proportion of the total lamp business done by the General Company. Before the agency method was put into use, the General Company did about 80% of the lamp business of this country (Tr. p. 108, Par. *h*). In 1921 it did about 69%, in 1922 about 62% and in 1923 about 61% (Tr. p. 91).

The Legal Aspects of the General Company's Method of Distribution.

The General Company's selling policy (carried out by direct sales to consumers of a large portion of its lamp product, and by sales through its agents of the balance) is to sell *to consumers only*. There surely can be no reason why it should not adopt and carry out this policy. It was and is a normal method of doing business (see pp. 8-9, *supra*). As was said by the Circuit Court of Appeals for the Second

Circuit in *Great Atlantic & Pacific Tea Co.* v. *Cream of Wheat Co.*, 227 Fed. Rep. 46, 49:

> "We have not yet reached the stage where the selection of a trader's customers is made for him by the Government."

That was said in 1915. It still represents the law. As late as April, 1926, this Court said, in *Moore* v. *New York Cotton Exchange*, 46 S. Ct. 367, 370, 70 L. ed. 442, 445:

> "It has long been settled by this court that under such circumstances a trader or manufacturer engaged in a purely private business may freely exercise his independent discretion in respect of the persons with whom he will deal and to whom he will sell and refuse to sell."

It is a matter of common knowledge, of which the court will take judicial notice, that many manufacturers follow the practice of selling direct to users. The advertisement "Direct from Factory to Wearer" appears before our eyes every day, on bill-boards and in advertisements, in newspapers and periodicals. Manufacturers of clothing and many other commodities sell direct to consumers, soliciting business through the mails and by means of canvassers. Some manufacturers operate retail stores through which they sell their products to consumers. The gasoline filling station owned by a refining company is a familiar sight along our highways. "Direct from manufacturer to consumer" is a legitimate course of distribution, frequently followed, and, beyond any doubt, lawful.

The Government, in its brief (p. 56), admits that the General Company has a right to establish retail stores in every community and sell lamps to consumers.

Neither the anti-trust law nor any other Act of Congress requires a manufacturer to sell his product to dealers for resale. If he sells to consumers only, refusing to sell to dealers for resale, he violates no law, although, being the owner of the goods, he fixes the prices which the consumer pays. "Effective competition requires that traders have

large freedom of action when conducting their own affairs" (*Federal Trade Commission* v. *Curtis Publishing Co.*, 260 U. S. 568, 591).

In *Whitwell* v. *Continental Tobacco Co.*, 125 Fed. Rep. 454 (C. C. A., 8th Cir., 1903), a suit for treble damages under the Sherman Act based on defendant's refusal to sell goods to plaintiff at prices which would enable him to resell at a profit, the Court said, page 463:

> "The defendants had not agreed to sell their goods to the plaintiff at prices which would make their purchase profitable to him, so that the damages he suffered did not result from any breach of contract with him. They were not caused by the breach of any legal duty to the plaintiff, *for the defendants owed him no duty to sell their products to him at any price*—much less, at prices so low that he could realize a profit by selling them again to others."

So it must be accepted, as established law, that the General Company, in dealing with the lamps manufactured by it—its own property—has the right, which "has long been settled," to sell to consumers only and to refuse to sell to jobbers and dealers for resale.

This being the situation it cannot for a moment be questioned that the General Company has the right to sell all of its lamp product to consumers by sales effected by its own sales offices and salaried employees. It is doing that with reference to such portion of its lamp product as it conceives may economically be sold in that way. To handle all of its product in that way would entail an undue expense in the establishment of branch offices and warehouses in every locality throughout the country. Lamps are articles in universal demand and, in order to reach and serve *all* consumers, it is more economical to employ the established and existing distributing facilities of the local merchandisers. So it appoints some of them as its agents to whom it consigns lamps which are sold by the agents in accordance with the directions of the principal—the owner of the lamps.

Does this introduce anything iniquitous or illegal? Clearly

not. The General Company has *the right* to use agents in the sale of *all* of its lamp product to consumers, just as it has *the right* to sell to consumers *all* of its product through its own sales offices and salaried salesmen. As, however, many but not all consumers may economically be reached through its own sales offices, it combines the two methods of sale, using salaried salesmen for some consumers and using agents, selling on commission, for others, the prices and terms of sale to the consumers being the same in each instance.

In other words, *if a manufacturer may select users as his only customers, refusing to sell to dealers for resale, he may adopt any lawful methods in carrying that selective policy into effect. And the consignment of goods to agents for sale to consumers is such a lawful method.*

In *Federal Trade Commission* v. *Curtis Publishing Co.*, 260 U. S. 568, affirming 270 Fed. 881, it was charged that the Publishing Company violated Section 3 of the Clayton Act and Section 5 of the Federal Trade Commission Act by means of contracts with its distributors which prohibited these "so-called" agents from dealing in the publications of competing publishers. If those contracts had been, in effect, contracts of *sale*, they would have violated Section 3 of the Clayton Act. These contracts are, so far as pertinent, printed in 270 Fed. at page 906. They contained restrictive features which the General Company's contracts do not contain, in that (1) they prohibited the agent from handling competing publications (clause 13), (2) required the agent to sell a specified number of copies of each issue (clause 16), and (3) required the agent to deposit a sum of money with the Publishing Company (clause 16).

The contracts were held to be agency contracts, to be proper and legitimate, and not to violate either the Clayton Act or the Federal Trade Commission Act. This Court said, pages 581, 582:

> "The engagement of competent agents obligated to devote their time and attention to developing the principal's business, to the exclusion of all others, where

nothing else appears, has long been recognized as proper and unobjectionable practice."

* * * * * *

"Effective competion requires that traders have large freedom of action when conducting their own affairs. Success alone does not show reprehensible methods, although it may increase or render insuperable the difficulties which rivals must face. The mere selection of competent, successful, and exclusive representatives in the orderly course of development can give no just cause for complaint, and, when standing alone, certainly affords no ground for condemnation under the statute."

In *Welsh v. Phelps & Bigelow Wind Mill Co.*, 89 Texas, 653, 656, 36 S. W. 71 (1896), it was held that a consignment of goods to an agent for sale was not a violation of the state anti-trust act. The court said:

"It was not the purpose of the statute, however, to interpose any obstacle to a principal's contracting with his agent with reference either to the terms or the subject matter of the agency. In the case before us it was entirely within the discretion of the principal, before as well as after the contract was signed, as to how many of its windmills it would send into the named territory, as well as to decline to sell for less than the net price, or permit its agent to sell for others. It controlled them all, and therefore there was no union or association of otherwise independent, separate and possibly competing 'capital, skill or acts' and hence no combination. * * * If the title to the windmills had passed by the contract and shipment, thus establishing the relation of vendor and vendee, instead of principal and agent, between the parties thereto, a different result might have been reached. * * *".

In *Mechem on Agency* (2nd Ed.) the author says at Section 854:

"The principal may lawfully prescribe the price and terms upon which the sale is to be made, and these regulations will be binding upon the agent, and, where they are charged with notice of them, upon third persons."

In *Cole Motor Car Co.* v. *Hurst*, 228 Fed. Rep. 280 (C. C. A., Fifth Circuit, 1915), the court said (p. 284):

> "Surely the Cole Company had the right to determine that its agents should sell its cars at its own price."

A manufacturer may certainly use all normal methods for distributing its products. And sales through agents is one of those methods, as we have pointed out above (see pp. 8-9, *supra*).

In *United States* v. *American Tobacco Co.*, 221 U. S. 106, this Court, referring to the *Standard Oil* case, said at page 179:

> "It was therefore pointed out that the statute did not forbid or restrain the power to make normal and usual contracts *to further trade by resorting to all normal methods, whether by agreement or otherwise*, to accomplish such purpose."

So it would seem to be clear that the General Company, in selling a portion of its product through those who are *bona fide* agents and in specifying to whom they shall sell its lamps and at what prices, is doing only what is entirely lawful and proper from every point of view.

The Position of the Government with Reference to the General Company's Method of Distribution.

1. The Government does not either in its Petition or in its brief make any criticism of that portion of the General Company's method of distribution which involves sales to consumers through the General Company's own sales offices and salaried salesmen. On the contrary it admits that the General Company could lawfully establish a store in every community and sell to consumers (Brief, p. 56). This is of interest, because it indicates that no criticism can be made of a sales policy which contemplates direct sales to the consumers, eliminating middlemen. That being granted —as it must be—the Government's whole position falls to the

ground, for, surely, the General Company is not to be denied by the law the right to avail itself of a normal and well recognized course of business involving the employment of agents to sell from consigned stocks in accordance with directions given by the principal.

2. Nor does the Petition charge that the General Company's agents are not *bona fide* agents. It does not *admit* that they are *bona fide* agents but it makes no allegations raising any issue on this point. It proceeds, rather, by way of innuendo. It refers to the agency system as a "scheme" and proposes to give a description of its operation "sufficiently comprehensive to enable the court to determine [a point not put in issue by the Petition, namely,] whether or not those who handle the lamps are *bona fide* agents of the General Electric Company" (Tr. p. 6).

In its Brief, however, the Government contends that the General Company's contracts do not create a genuine agency; that, because the agent pays certain expenses incident to the sale, and not only remits for lamps sold but also pays for lamps which are lost, damaged or missing, he, therefore, *"is responsible for every lamp received by him, and must pay for the same, unless the manufacturer should see fit at his own time and pleasure to direct that the goods be returned"*. (Italics ours.)

But the contracts are made for terms of one year each (Tr. 229, 375) and, upon expiration, the agent's obligation is to *return* the unsold lamps—not to *pay* for them (pp. 17-18, *supra*).

Provisions requiring the agent to pay expenses, of the character which the General Company's agents pay, appear in so many contracts which have been held to be true agency contracts,* that they are obviously usual and customary pro-

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* See, *In re Columbus Buggy Co.*, 143 Fed. 859; *In re Flanders*, 134 Fed. 560; *Plow Co.* v. *McDavid*, 137 Fed. 802; *In re Wright-Dana Hardware Co.*, 211 Fed. 908; *Stockyards* v. *Cattle Co.*, 59 Fed. 49; *National Bank* v. *Benedict Co.*, 74 Fed. 182; *Buller Bros. Shoe Co.* v. *United States Rubber Co.*, 156 Fed. 1; *Cruikshank* v. *Henry*, 6 Blackf. (Ind.) 19; *Bank* v. *Goodyear*, 90 Ga. 711; *Lenz* v. *Harrison*, 48 Ill. 598; *Williams, etc., Co.* v. *Raynor*, 38 Wis. 119.

visions in consignment contracts. They do not affect the agency character of the contract (see p. 20, *supra*).

That the agent pays for lamps which are lost, damaged or missing, merely emphasizes that the lamps are the property of the General Company for the safe keeping of which the agent is responsible. This is a reasonable provision in agreements of this character (see p. 20, *supra*).

3. In Paragraph VI of the Petition, the pleader purports to state his legal conclusions as to the meaning of the contracts of agency. Those of these conclusions which seem to indicate a state of mind with reference to, or a criticism of, the provisions of the contracts, are as follows:

(*a*) "No one can buy lamps for the purpose of resale" (Tr. p. 13). There is no agreement that a person, having purchased lamps, shall not resell them. No charge is made that there is any attempt to control what is done with the lamps after they are once sold, and the agency appointments specifically provide that the agent "shall not control or attempt to control the prices at which any Purchaser shall sell any of such lamps". It is true that sales are not made to jobbers and dealers; but a manufacturer has the well settled right freely to "exercise his independent discretion in respect of the persons with whom he will deal and to whom he will sell and refuse to sell" (p. 24, *supra*).

(*b*) "The agent is obligated to return to the manufacturer *at any time when directed by it* all or any part of the consigned stock which has not been sold," according to the Petition, Paragraph VI, Section 1 (Tr. p. 13), "and is to return undamaged lamps *at the direction of the manufacturer*", according to Section 5, Tr. p. 15. (The italics are in the Petition.) True. And this is one of the well recognized indicia of a contract of agency as distinguished from a contract of sale. See *In re Galt*, 120 Fed. 64, 68 (C. C. A. 7).

(*c*) Each month "the agents shall pay to the manufacturer at the specified price, for all lamps sold or delivered to customers whose accounts for such lamps were due on

the first day of the month less his compensation" (Par. VI, Sec. 5, Tr. p. 14). This is not exact. As appears from Clause 5 of the agency contracts (Tr. p. 234), the agent is to "pay over" to the manufacturer (*a*) an amount equal to the total sales value, less the agent's compensation, of the lamps sold during the preceding month *"for which collections have been made"* and (*b*) an amount equal to the total sales value, less compensation, of the lamps sold to customers whose accounts are, on the first day of the month, *"past due"*. In this latter respect the agent is acting under a *del credere* commission (see pp. 18-20, *supra*).

(*d*) "When rendering an inventory report, he shall pay to the manufacturer the value *of all lamps lost or missing or damaged* on the basis of the list price, less the agent's rate of compensation" (Petition, Tr. p. 15. The italics are in the Petition). True. But this merely again emphasizes that the lamps are the property of the General Company for the safe-keeping of which the agent is responsible. This is a reasonable provision in agreements of this character (see p. 20, *supra*).

The Petition, instead of charging that the agents are *not bona fide* agents, makes such averments, and sets forth the provisions of the contracts in such manner, as to make it clear that they *are bona fide* agents.

In the Government's Brief (p. 40) appears the surprising statement that there is no substantial difference between the agency contracts of the General Company and the contracts between the manufacturer and the wholesaler considered in *Dr. Miles Medical Co.* v. *Park*, 164 Fed. 803; 220 U. S. 373. The objectionable features of the contracts considered in that case were pointed out by Judge Lurton as follows (164 Fed. 804, 805):

> "All the responsibility of an owner seems cast upon the so-called 'consignee'. He is not given the right to return goods unsold; that can be done only upon the cancellation of the contract and demand for return. * * * Curiously enough, the actual payment of the price at

> which the consignment is billed is not to affect the title; it is still, under the contract, to remain with the so-called 'consignor'. Yet the heavy inducement of 5 per cent upon a very close class of goods is held out to induce a payment in advance of sales."

None of these features appear in the General Company's contracts. The agent makes no advances to the General Company before the lamps are sold. The contract is for a definite term of one year (Tr. 229, 375) and upon expiration it is not only the right, but it is the duty, of the agent to return all unsold lamps (see p. 18, *supra*). And the General Company itself bears the risks and responsibilities of ownership (Tr. p. 106, Par. b).

4. In Paragraph VII of the Petition it is said that (Tr. p. 15):

> "There are engaged in the distribution of its [the General Company's] lamps four hundred or more so-called jobber agents, and twenty-one thousand or more so-called retail agents. These alleged jobber agents conduct their lamp business in the same way jobbers in other lines of commerce conduct their business; and likewise the so-called retailer agents *obtain their goods* and deliver or sell the same in precisely the same way that business is carried on by *bona fide* retailers in other lines of commerce. In other words, electric lamps are in fact distributed through the trade and to the ultimate consumer in the same way as dry goods, groceries, and other lines of merchandise."

But the "jobber agents" and "retailer agents" (the quoted words are those of the pleader and not of the contracts) do not "obtain *their* goods", but the goods of the General Company on consignment.

And the course of business is different, under the agency contracts, from what it would be if the General Company sold to jobbers and dealers for resale. The agents do not pay for the lamps or pay anything over to the General Company until after they are sold; they do not carry the investment in the consigned stocks; they make periodical reports of the stocks

on hand; they deal in the lamps only as may be directed by their principal, the General Company, the owner of the lamps; and the unsold consigned stocks may be recalled by the General Company at any time—all of which appears from the Petition itself.

Furthermore, when a dealer buys for resale he determines for himself the quantity of goods he will buy and also the assortments and kinds. The manufacturer can sell only such goods as the dealer is willing to purchase. When selling through agents, however, the General Company itself determines the "sizes, types, classes and quantity of lamps and the length of time they shall remain in stock" (Clause 2, Tr. p. 230). This right of selection of the stocks which are offered to consumers is of real importance. The success of any manufacturer ultimately depends upon the purchases of his product by consumers. Dealers are channels or conduits from manufacturer to consumer, but the consumer is the real buyer. And the *consumer's* satisfaction with the goods is the thing of vital importance to the manufacturer.

A dealer who buys goods for resale, and invests his own money therein, has the financial problem to consider. He asks himself, "how much can I afford to invest in this merchandise? Are prices likely to advance or decline?" The financial problem undoubtedly affects, at times, both the quantity and the assortment of the goods which a dealer buys. Obviously, the result is not always in the interest of either the manufacturer or the consumer. But the General Company, when selling through agents, determines the kinds and quantities of lamps consigned, and is enabled to build up and maintain good will by offering direct to consumers in the various localities the classes of lamps best suited to their respective purposes and needs, and in sufficient assortment and quantities. The situation is analogous to that in *Federal Trade Commission* v. *Sinclair Refining Co.*, 261 U. S. 463, 475, where this Court said that the refiner was "also vitally interested in putting his brand within easy reach of consumers with ample assurance of its genuineness."

The allegation that, in the distribution through agents,

lamps are distributed in the same way as are commodities which are bought by dealers and resold, is a conclusion of the pleader, not a fact, and is erroneous. The differences which we have pointed out are substantial, both in practical operation and with respect to the legal rights and obligations.

5. In Paragraph VII of the Petition it is further said that (Tr. p. 16):

> "the defendant General Electric Company has endeavored by this system of contracts to so hedge about the commerce in lamps manufactured by it that it can absolutely control the prices of its lamps, not only while they remain in its own hands, but while they are passing through the hands of the various wholesalers and retailers, and until purchased by the ultimate consumer."

If, by this reference to controlling the prices of lamps "while they remain in its own hands" and while "passing through the hands of the various wholesalers and retailers", it is intended to imply that the lamps are sold to the agents and title becomes vested in the agents, the statement is clearly erroneous.

If it does not imply that, then the quoted statement as to the General Company having so arranged matters that it "can absolutely control the prices of its lamps" "until purchased by the ultimate consumer", is equally applicable to that portion of its lamp product which the General Company sells to consumers without the use of any agents but entirely through its own sales offices and salaried salesmen.

This would bring this controversy down to the single question as to whether or not the General Company may legally sell to consumers only, as distinguished from selling to jobbers and dealers for resale. But that presents really no question. It is clear that it can do so (see pp. 24-25, *supra*).

6. Then, in Paragraph VII of the Petition is made the following allegation (Tr. p. 16):

> "Plaintiff alleges that this *scheme* was created *as a device to defeat* the provisions of the Anti-trust Act,

which prohibits a manufacturer from *fixing resale prices* of his goods, and to prevent any competition whatever between those who are engaged in the distribution of electric lamps manufactured by it, and that such purpose has been fully accomplished thereby. Plaintiff further alleges that said scheme or *system of contracts* constitutes within itself an unlawful combination or conspiracy in restraint of trade in violation of said Anti-trust Act, whether those who handle said defendant's lamps be technically agents or not, because it necessarily accomplishes the same purpose as would be accomplished by a system of contracts under which the dealers in lamps were purchasers and their resale prices were fixed by the contracts."

As much of the Government's brief is devoted to this contention, we shall consider its several parts separately.

(a) The agency method of distribution is not a "scheme" or "device" to defeat the provision of the Sherman Law.

The Government's contention, in substance, is this: Prior to 1911 the General Company had sold lamps to dealers under contracts fixing resale prices; it was enjoined by the decree in the Government suit of 1911 from continuing such contracts; and shortly thereafter it adopted the present plan of selling through agents, utilizing as agents the same jobbers and dealers who had previously purchased under the restrictive contracts. Therefore, it is argued, because lamps are marketed through the same dealers as before, the sales through agents are unlawful, even though the rights, responsibilities and obligations which are created by the agency contracts are radically different from those under the earlier contracts of sale.

A brief review of the circumstances existing before the agency contracts were adopted will be of interest in this connection. Prior to 1911 it had been quite generally believed that agreements between manufacturers and dealers, restricting resale prices, at least in the case of patented articles, were valid. Such contracts had been upheld by courts of

high standing.* Counsel for the Government in the 1911 suit evidently did not regard such agreements very seriously, for, although there were references in the petition to resale price agreements with dealers, no relief with respect thereto was asked in the prayer of the petition (Tr. 834-839). While the 1911 suit was pending, however, this court decided the case of *Dr. Miles Medical Co.* v. *Park*, 220 U. S. 373, and the provision in the 1911 decree against such agreements was obviously due to that decision.

We do not deny that the *Dr. Miles* decision was considered by the General Company before it adopted its plan of selling direct to consumers through agents. We believed then, and we now contend, that the General Company's distribution of lamps is entirely consistent with the principle of the *Dr. Miles* decision and does not offend against either the letter or the spirit of the Sherman Law as interpreted by that decision.

Later (p. 40, *infra*), we give an analysis of the *Dr. Miles* case, but here we shall merely state our understanding of what it holds. In our view, that case holds that agreements between a manufacturer and dealers "restraining the freedom of trade on the part of dealers who *own what they sell*" are in violation of the Sherman Act (220 U. S. 407). The manufacturer cannot project his will over the property when it is "not subject to his will *because owned by another*" (*Boston Store* v. *American Graphophone Co.*, 246 U. S. 8, 22). The Sherman Law, as interpreted by this court, "prohibits a manufacturer from fixing the *resale* price of his goods". It has never been held to be a violation of the Sherman Law for a manufacturer, acting alone and not in combination with others, to fix the prices to be charged on sales of goods which he himself owns. On the contrary, "*Every manufacturer, before sale, controls the articles he makes. With respect to these, he has the right of ownership* * * *" (*Dr. Miles* case,

* *National Phonograph Co.* v. *Schlegal*, 128 Fed. 733 (C. C. A. 8, 1904; *Victor Talking Machine Co.* v. *The Fair*, 123 Fed. 424 (C. C. A. 7, 1903); *Edison Phonograph Co.* v. *Pike*, 116 Fed. 863 (D. C. Mass. 1902); *Edison Phonograph Co.* v. *Kaufman*, 105 Fed. 960 (D. C. Pa. 1901). See also cases collected in 7 *Am. L. Reports 460, 466*.

220 U. S. 373, 403). The distinction is clear. A manufacturer may not fix the prices to be charged for goods owned by others, even if the goods were at one time owned by him, and were products of his manufacture. But he may fix the prices to be charged for his own goods, so long as he remains the owner.

If our interpretation of the *Dr. Miles* decision is correct, then the plan of selling direct to the consumer, partly through consignments to agents, is not a violation of the Sherman Law as interpreted by the *Dr. Miles* case, either in letter or in spirit; provided, of course, that the agents are *bona fide* agents and that the manufacturer remains the real owner of the goods until they are sold. Surely such a plan is in no sense a "scheme" to evade the law. It is a mere exercise of lawful rights.

There might have been some ground for the term "scheme", if, instead of making *bona fide* agency contracts, the General Company had changed only the *form* of its method of distribution, leaving the *substance* as it was before. Admittedly, the Sherman Law cannot be defeated by "any disguise or subterfuge of form" (*United States* v. *American Tobacco Co.*, 221 U. S. 106, 181).

Some manufacturers and traders have at times made contracts whereby they attempted to secure the advantages of both a sale and an agency. By obtaining money from the consignee, before the goods were sold, or by obligating the consignee to pay for the goods whether sold or not, or by some other method, they gained the advantages of a sale, but by attempted retention of the bare legal title, they attempted to secure also the advantages of an agency.* Judge Lurton well said that such a contract merely disguised a sale under the "mask of agency" (*Dr. Miles Medical Co.* v. *Park*, 164 Fed. 803, 805).

But the General Company's agency contracts have no such characteristics.

A substantial difference between a sale and an agency is

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* See, for instance, *Butterick Co.* v. *Federal Trade Commission*, 4 Fed. 2nd, 910, certiorari denied, 267 U. S. 662; *Mechem on Agency* #47.

this:—Where dealers *buy* for resale, the investment in the stocks is carried by the dealers. They pay for the goods. They bear the risks and responsibilities of ownership, such, for instance, as the risk of loss from fire, flood, obsolescence and price declines. But under the General Company's agency contracts, the General Company carries the entire investment in the lamp stocks. It receives no money unless and until the lamps are sold, and its agents are not obligated to pay, and do not pay, while the lamps remain unsold. The General Company bears the risks and responsibilities of ownership, and the agency is one in substance as well as form.

It is erroneous to call such a plan a "scheme" or "device" to defeat the Sherman Law.

In *United States* v. *United Shoe Machinery Company*, 247 U. S. 32 (1918), the Government charged that the defendant, instead of selling its machines outright, was operating under a system of leases. The machines were patented. This Court, after stating conclusions from earlier decisions of the Court as to the rights of a patentee, said, page 58:

> "These cases have received review and application in *Boston Store of Chicago* v. *American Graphophone Co.*, decided March 4, 1918 (246 U. S. 8). The principle of them was expressed to be that where an article has been sold it passes beyond the monopoly given by the patent, and conditions cannot be imposed on it. Leases are not of this character; they do not convey title. It is not contended, nor could it be, that in this case they are a *disguise* for something else, *artifices* to convey the machinery and yet keep it subject to the patent right and its exercise. It, therefore, follows that conditions may be imposed by them."

Of course, the General Company should not be prejudiced by the fact that, prior to 1911, it had made resale price contracts with dealers. As already pointed out, such contracts had been approved by courts of high standing. After the *Dr. Miles* decision by this court in 1911, the General Company's contracts of that character were discontinued. But there was nothing, and is nothing, in either the anti-

trust law or in the 1911 decree, which requires the General Company to market its lamps by selling to dealers for resale. On the contrary, "effective competition requires that traders have large freedom of action when conducting their own affairs." (*Federal Trade Commission* v. *Curtis Publishing Co.*, 260 U. S. 568, 591.) The General Company was, and is, free to adopt any lawful plan of marketing its lamps. It is clear that the policy of selling direct to consumers is a lawful policy (pp. 24-25, *supra*).

And if a manufacturer may select users as his only customers, refusing to sell to dealers, he may adopt any lawful method for carrying his selective policy into effect. The consignment of goods to agents for sale to consumers is such a lawful method. (*Federal Trade Commission* v. *Curtis Publishing Co.*, 260 U. S. 568, 581, 582.) Such being the rights of a manufacturer—to sell his own goods direct to consumers, at prices fixed by himself, by means of consignments to agents—how can it be *an evasion* of law for a manufacturer to avail himself of these unquestionable rights?

(b) The agency contracts do not result in "fixing resale prices"; they have nothing to do with resale prices.

Having the right to choose to sell to consumers only, it is immaterial whether the General Company makes such sales entirely through its own sales offices and salesmen, or entirely or in part through its agents selling on commission. In either event there is only one price and only one sale, namely, the sale to the ultimate consumer. In either event, there is no competition in prices, as between owners of the manufacturer's product, in the sale of that product to the consumer. That is the natural and inevitable result of selling to consumers only. It has nothing to do with *resale* price restrictions; there *is* no resale. No law and no principle of ethics require that a manufacturer's product shall be so dealt with by him that there shall be competition between others in the sale of that product. The "consumer" may sell to anyone, if he desires, and at any price; there is no restriction in this regard.

That an agency method of distribution is legal and proper is shown by not only the cases which we have already cited, but also by others.

In *Dr. Miles Medical Co. v. Park*, 220 U. S. 373, there was involved a plan or system of distribution of proprietary medicines by means of two forms of contracts called respectively, "Consignment Contract—Wholesale" and "Retail Agency Contract". The manufacturer sought to enjoin the defendant from inducing the manufacturer's distributors to violate their agreements not to sell below a specified price. Excerpts from the briefs of counsel which are printed in the report of the case show that, on behalf of the manufacturer, it was contended that the "Wholesale" contracts were contracts of agency and therefore valid (pp. 383-384). Counsel for the adverse party contended that the contracts were contracts of sale and therefore invalid (p. 389), but did not contend that if they did amount to agency contracts they would have been invalid. The opinion of the Court considered at some length the "Consignment Contract—Wholesale" (pp. 395-397); and inclined to the view that it constituted a sale and not an agency, but did not find it necessary to decide the point for the reason that one "wholesale agent" was permitted to sell to another "wholesale agent" and the defendant might have procured the goods in controversy from a wholesale agent who held title thereto by purchase.

The "Retail Agency Contract" was held to amount to a sale and not an agency.

The title to the goods had passed to those upon whom the resale price restrictions were imposed. They were *purchasers.* The price restrictions were therefore held to be invalid. But in the dissenting opinion it was pointed out that if the contracts had been *bona fide agency* contracts (as are those in the case at bar) they "would be beyond successful attack" and that no one "would deny that the owner was acting within his rights". It was there further said (p. 411):

> "In the first place, by a slight change in the form of the contract the plaintiff can accomplish the result in a way that would be beyond successful attack. *If*

> *it should make the retail dealers also agents in law as well as in name*, and retain the title until the goods left their hands, I cannot conceive that even the present enthusiasm for regulating the prices to be charged by other people would deny that the owner was acting within his rights."

This point was tacitly but unmistakably conceded by the court, as will appear from the following passages in the prevailing opinion:

Page 399:

> "It is, as we have seen, a system of interlocking restrictions by which the complainant seeks to control *not merely the prices at which its agents may sell its products*, but the prices for all sales by all dealers at wholesale or retail, whether *purchasers or sub-purchasers*, and thus to fix the amount which the consumer shall pay, eliminating all competition."

Page 403:

> "But, because there is a monopoly of production, it certainly cannot be said that there is no public interest in maintaining freedom of trade with respect to future sales *after the article has been placed on the market and the producer has parted with his title. Moreover, every manufacturer, before sale, controls the articles he makes. With respect to these, he has the right of ownership*, and his dominion does not depend upon whether the process of manufacture is known or unknown, or upon any special advantage he may possess by reason of location, material or efficiency."

Page 407:

> "The agreements are designed to maintain prices *after the complainant has parted with the title to the articles*, and to prevent competition among those who trade in them."

Page 407:

> "If there be an advantage to the manufacturer in the maintenance of fixed retail prices, the question

remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade *on the part of dealers who own what they sell.*"

Again on pages 408-409:

> "And where commodities have passed into the channels of trade *and are owned by the dealers*, the validity of agreements to prevent competition and to maintain prices is not to be determined by the circumstance whether they were produced by several manufacturers, or by one, or whether they were previously owned by one or by many. The complainant *having sold its product at prices satisfactory to itself*, the public is entitled to whatever advantage may be derived from competition in the *subsequent* traffic."

The plain import of the *Dr. Miles Medical Company* case is that distribution through *bona fide* agents is valid both at common law and under the Sherman Act, although its effect might be to control the prices which the consumer pays.

In a nutshell, the *Dr. Miles* case held (1), that *one* contract restricting resale prices would be void at common law because a right of alienation is an essential incident of ownership, and restraints upon such right are obnoxious to public policy, and, (2), that several similar contracts restraining the "freedom of trade on the part of dealers who own what they sell" have the same effect as if the dealers themselves had formed a combination and made the contracts between themselves, and would therefore be invalid under the Sherman Law. We quote from the opinion (220 U. S., p. 404):

> "Thus, a general restraint upon alienation is ordinarily invalid. The right of alienation is one of the essential incidents of a right of general property in movables, and restraints on alienation have been generally regarded as *obnoxious to public policy*, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels, except when a very special kind of property is involved, such as a slave or an heirloom, have been generally held void. 'If a man' says Lord Coke, in Coke on Littleton Section 360 'be possessed of a horse

> or of any other chattel, real or personal, and give his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void *because his whole interest and property is out of him*, so as he hath no possibility of reverter * * *." *John D. Park & Sons Co.* v. *Hartman*, 82 C. C. A. 158, 153 Fed. 24.

Thus, resale price restrictions in a contract were void at common law. We quote again from 220 U. S., pages 407-408:

> "If there be an advantage to the manufacturer in the maintenance of fixed resale prices, the question remains whether it is one which he is entitled to secure by agreement restricting the freedom of trade on the part of *dealers who own what they sell.* As to this the complainant can fare no better with its plan of identical contracts than could *the dealers themselves if they formed a combination and endeavored to establish the same restrictions* and thus to achieve the same result, by agreement with each other."

Therefore several contracts restraining the "freedom of trade on the part of dealers *who own what they sell*" have the same effect as if the dealers had themselves formed a combination to fix prices, and are invalid under the Sherman Act.

But this reasoning cannot apply to the General Company's situation. Its agents are *not* "dealers who *own* what they sell". Therefore the agents could not form a combination to "achieve the same result by agreement with each other". In other words, the principle of the *Dr. Miles* case *has no application to original sales by a manufacturer.* He may fix the price of his own product on orginal sales which he makes personally, or through his agents.

In decisions of this Court subsequent to the *Dr. Miles Medical Company* case, the point made in the dissenting opinion in that case has been tacitly conceded, as it was in the prevailing opinion, as we have seen. Moreover, the clear distinction between *original sales* by a manufacturer, and *subsequent resales* by those who purchase his product, has been consistently observed.

In *Bauer* v. *O'Donnell*, 229 U. S. 1 (1913), holding that

a patentee could not by notice impose resale price restrictions upon purchasers of patented articles, this Court said, at page 17:

> "The appellee and the jobbers from whom he purchased *were neither the agents nor the licensees of the patentee.* * * * *The right to vend* conferred by the patent law ***has been exercised,*** and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this court from the beginning has held that a patentee who has parted with a patented invention *by passing title to a purchaser* has placed the article beyond the limits of the monopoly secured by the patent act."

In *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490 (1917), a manufacturer endeavored to control resale prices by a "License Notice", retaining the bare title after receiving the full price on the original sale. This Court said, page 498:

> "First of all it is plainly apparent that this plan of marketing adopted by the plaintiff is, in substance, the one dealt with by this court in *Dr. Miles Medical Co.* v. *John Park & Sons Co.*, 220 U. S. 373, and in *Bauer* v. *O'Donnell*, 229 U. S. 1, adroitly modified on the one hand to take advantage, if possible, of distinctions suggested by those decisions, and, on the other hand, to evade certain supposed effects of them."
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> * * * * * *
>
> "for itself, the plaintiff makes sure that the future shall have no risks, for it requires that all it asks or expects at any time to receive for each machine must be paid in full before it parts with the possession of it."

Pages 500, 501:

> "Courts would be perversely blind if they failed to look through such an attempt as this 'License Notice' thus plainly is ***to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest.***"
>
> * * * * * *

"Convinced as we are * * * that its real and poorly concealed purpose is to restrict the price of them, *after the plaintiff had been paid for them and after they had passed into the possession of dealers and of the public,* we conclude * * * that it is therefore invalid * * *."

In *Boston Store* v. *American Graphophone Co.,* 246 U. S. 8 (1918), it was held that the fact that the articles were patented did not enable a seller to impose resale price restrictions thereon. This Court said (pp. 21-22) that in the *Dr. Miles* case

"it was decided that, under the general law, the owner of movables (in that case, proprietary medicines compounded by a secret formula) could not *sell* the movables and lawfully by contract fix a price at which the product should afterwards be sold, *because to do so would be at one and the same time to sell and retain—to part with and yet to hold,*—to project the will of the seller so as to cause it to control the movable parted with when it was not subject to his will *because owned by another,* and thus to make the will of the seller unwarrantedly take the place of the law of the land as to such movables."

That the *Boston Store* case did not extend the principle of the *Dr. Miles* case appears from the following statement of the Court (p. 26):

"In addition, through perhaps an abundance of precaution, we direct attention to the fact that nothing in the decided cases to which we have referred, having regard *either to the application of the general law* or of the patent law, deprives an inventor of any right coming within the patent monopoly, since the cases alone concerned whether the monopoly of the patent law can be extended beyond the scope of that law, *or, in other words, applied to articles after they have gone beyond its reach.*"

It is clear that neither the *Miles Medical* case nor any subsequent decision affords basis for a contention that *bona fide* agency contracts are invalid on the ground that they

have the same effect as the fixing of resale prices—or otherwise. Those decisions, on the contrary, sustain the propriety of the General Company's distribution through agents.

Counsel for the Government Err in their Interpretation of the Dr. Miles case:

On pages 43-44 of the Government's brief it is contended that the principle of that decision is that a manufacturer has no right to suppress competition among those who "*handle*" his goods: that ownership of the goods is immaterial; that the Dr. Miles Medical Company was the owner of the medicines which were the subject of litigation in that case, and that the American Graphophone Company was the owner of the goods which were the subject of litigation in *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8.

The plain facts were that these companies were the manufacturers of the goods, and at one time *had been* the owners, but the question considered in each case was whether contracts were valid which imposed resale price restrictions *after the goods had been sold to, and were owned by, the dealers* (see quotations from the opinion in the *Dr. Miles* case, pp. 40-42, *supra*, and from the opinion in *Boston Store* case, p. 45, *supra*). Ownership of the goods was of vital importance in each decision.

Again (p. 48) it is contended that the Dr. Miles Medical Company's contracts were regarded by the court as agency contracts. On the contrary, the court made it very clear that the contracts were regarded as contracts of sale (see quotations from the opinion, pp. 40-42, *supra*). On page 399 (220 U. S.) it is said:

> "It is, as we have seen, a system of interlocking restrictions by which the complainant seeks to control *not merely the prices at which its agents may sell its products*, but the prices for all sales by all dealers at wholesale or retail, *whether purchasers or sub-purchasers*".

(c) The distribution through agents is not objectionable as involving a "system" of contracts.

The Government's contention, as we understand it, is that the intent of the General Company was to do an unlawful act, and that such intent is accomplished by identical contracts with a large number of agents. But what *unlawful* result was intended? For a lawful act to be a step in an unlawful plot, the plot must be "unlawful". For a plan to make its parts unlawful, the plan must be "unlawful". If there is no unlawful plot or plan, any number of lawful parts or steps are, of course, innocuous.

The Government argues that the unlawful result is restraint of trade. But whose trade is restrained by the agency contracts? The agency contracts are for the sale of the General Electric Company's own lamps. No restraints are imposed on any other owner of lamps, by its agency contracts, whether considered separately or as a "system". Surely, a manufacturer may control his product so long as he remains the *bona fide* owner thereof.

The "system" of contracts considered in the *Dr. Miles* case was entirely different. We repeat two quotations from the decision (220 U. S.):

Page 399:

> "It is, as we have seen, a *system* of interlocking restrictions by which the complainant seeks to control not merely the prices at which its agents may sell its products, but the prices for all sales by all dealers at wholesale or retail, whether *purchasers* or *sub-purchasers*. * * *"

Page 407:

> "If there be an advantage to a manufacturer in the maintenance of fixed retail prices, the question remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade *on the part of dealers who own what they sell*. As to this, the complainant can fare no better with its *plan of identical contracts* than could the dealers themselves if they

> formed a combination and endeavored to establish the same restrictions and thus to achieve the same result, by agreement with each other."

The illegality in the Dr. Miles Medical Company contracts was the restraint upon "the freedom of trade on the part of dealers who *own* what they sell." The effect of the restrictions in a "system" of contracts with several dealer purchasers was the same as if the dealers had formed a price fixing combination between themselves. But, as we have already pointed out, *agents* could not form such a combination. They do not "*own* what they sell". The right of a manufacturer to control original sales, which he makes personally or by agents, is recognized, not only in the dissenting opinion but also in the prevailing opinion, page 403:

> "Moreover, every manufacturer, before sale, controls the articles he makes. With respect to these, he has the rights of ownership * * *."

In the Government's Brief, much reliance is had upon two decisions of the Circuit Court of Appeals for the Sixth Circuit (*Park & Sons* v. *Hartman*, 153 Fed. 24; and the *Dr. Miles* case in that court, 164 Fed. 803). We will therefore review those cases briefly.

In *Park & Sons* v. *Hartman*, 153 Fed. 24, 39, the court considered contracts whereby a manufacturer sought to impose resale price restrictions upon dealers, both wholesalers and retailers. Counsel for the manufacturer contended that the restrictions were valid because they were *partial* restrictions only, ancillary to the sales of the goods. Judge Lurton's expressions regarding a "system" of contracts were in reply to that argument. Judge Lurton said (p. 41):

> "Assuming that these contracts operate only as a partial and not a general restraint, a question which we do not concede, and that they are properly to be considered as covenants ancillary to a principal contract, are the restraints thereby imposed necessary to protect the complainant in his retained business, or to protect him from an unjust use of the articles by the purchaser? In the

first place, we are to consider that we are not here dealing with a single contract. The complainant has a multitude of them in identical terms * * *."

Then followed a description of the "system" of contracts binding together the manufacturer, the wholesalers who bought from him, and the retailers who bought from the wholesalers. In other words, the restraints were upon goods *owned* by the respective parties. The "system" was referred to as showing that the restraints, even if they were partial restraints only, exceeded what was necessary to protect the manufacturer. The actual decision was based upon the same principle upon which *Dr. Miles Medical Co.* v. *Park* was subsequently decided by this Court. This appears from the following passages in Judge Lurton's opinion:

Page 38:—"*The case must therefore turn* upon the legality of the restrictions imposed by the complainant *in sales that pass the general property in chattels,* as well as the possession, and provide for no reverter."

Page 45:—"Looking to the averments of the bill as a whole and to the scheme of business as disclosed by the contracts themselves, we cannot escape the conclusion that the covenants restricting sales and resales have as their prime object the suppression of competition between *those who buy to sell again."*

There was no question of agency in the *Hartman* case, all the contracts being admitted to be contracts of sale.

In the *Dr. Miles* case at circuit, however (164 Fed. 803), although the contracts were substantially the same as those considered in the *Hartman* case, it was contended that the contracts between the manufacturer and jobbers were agencies, although admittedly the contracts with retailers were contracts of sale. In other words, the argument advanced was that, merely by converting the *jobbers* from purchasers into agents, the prices to be charged by *retailers on resales* could be legally restricted. Bearing this in mind, it is evident that the following language of Judge Lurton in the *Dr. Miles* case at circuit (164 Fed. 804) has no application to

sales made by a manufacturer, of his own goods, through *bona fide* agents directly to the consumer:

> "No difference whatever is suggested between the system of contracts considered in that case" [the *Hartman* case] "and those here presented, except, it is claimed, that the agreement with *jobbers and wholesale dealers* here involved is one of bailment or agency and not one of sale as in the *Hartman* case. If this were admitted, it does not, in our judgment, operate to legalize the *"system" of which that agreement is but one part.* The effect of that contract with jobbers, whether it be regarded as one of sale or agency, is to restrain jobbers from selling to any save retailers licensed by the complainant, *and to restrain retailers from selling for resale* to any save those licensed to buy or to persons who buy for consumption only, and to none, by either jobber *or retailer,* except at a price imposed by the manufacturer. The confessed object of this plan or system is to obtain a price to the jobber and to the retailer unaffected by any competition between them. The scheme is one to enhance or maintain prices by eliminating all possibility of competing rates between either jobbers *or retailers,* and is quite as effectual in its results as if the contract with the jobber was plainly one of sale."

That the principle of the decision in the *Dr. Miles* case at circuit was the same as in this Court appears from page 806 (164 Fed.), wherein Judge Lurton, answering an argument that restraints may be imposed in the sale of articles manufactured under a secret formula, said:

> "But if he elects to make and sell a product according to his formula, a public interest is affected if he be permitted to restrain freedom of trade in the article *when it has once passed under the dominion of a buyer.* A free right of alienation is an incident to the general rights of property in articles which pass from hand to hand in the commerce of the world. Coke on Littleton #360."

That the General Company's agency contracts are not objectionable as a "system" appears from decisions of this court and other courts.

In *Federal Trade Commission* v. *Curtis Publishing Co.*, 260 U. S. 568, it appeared that the Publishing Company had contracts (which were obviously identical contracts; see pages 580-581) with 1,535 agents, prohibiting the agents from handling competing publications, and that approximately 447 of the agents had previously been wholesale dealers in newspapers and magazines, and that the effect of the contracts was to close to competitors the most efficient and established channels of distribution, which had been open before the exclusive contracts were made. But this court held the contracts to be valid and lawful.

The Curtis Publishing Company agency contracts, although fewer in number than those of the General Company, were in principle fully as much a "system" of contracts as are those of the General Company, and the restrictions imposed on the Curtis Publishing Company agents were more stringent.

In line with the *Curtis Publishing Company* case is a decision by the Supreme Court of Missouri: *Staroske* v. *Pulitzer Publishing Co.*, 235 Mo. 67, 138 S. W. 36 (1911), wherein the court considered agency agreements between a newspaper publisher and its carriers or distributors, which prohibited the carriers from carrying the papers of a competitor. This restraint was held not to violate the anti-trust act of Missouri. *The carriers were not in competition with each other and, being agents of the publisher, they constituted with him but one party in legal effect.*

In *Baran* v. *Goodyear Tire & Rubber Co.*, 256 Fed. 571, 572 (D. C. N. Y.), Judge Augustus N. Hand said:

> "The alleged combination or conspiracy between principal and agent, if obnoxious at law, must be so because what they have done together would have been illegal if done by the principal alone."

The mere number of contracts does not render them unlawful. The law does not make mere size an offense. *United States* v. *United States Steel Corporation*, 251 U. S. 417, 451.

Attacks upon a "system" of contracts, based upon number, was made in *United States* v. *United Shoe Machinery Co.*, 247 U. S. 32, but the contention was held to be without merit.

(d) The lamps sold through agents are manufactured under patents. In selling through agents the General Electric Company is merely exercising its exclusive right to vend, granted by the patent law.

As we show in detail later (pp. 54-58, *infra*) the tungsten filament lamps made by the General Company are covered by patents which have repeatedly been sustained and broadly construed. These are the lamps which are sold to consumers through agents.

While the legality of an agency method of distribution is not dependent upon the articles being patented, yet the fact that they are patented emphasizes the propriety of that method which involves the General Company retaining title to the lamps until they are sold to the consumer.

The owner of a patent has the exclusive right to make, use or sell the patented article. In *Bauer* v. *O'Donnell*, 229 U. S. 1 (1913), this Court, speaking of the Patent Law, said at page 10:

> "The act secured to the inventor the *exclusive* right to make, use and vend the thing patented, and consequently to prevent others from exercising like privileges without the consent of the patentee. *Bloomer* v. *McQuewan*, 14 How, 539, 549; *Continental Paper Bag. Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 425."

In selling through its own agents the General Company is merely exercising its exclusive right to vend, granted by the patent law. It is elementary that the acts of an agent within his authority are the acts of the principal himself. As Professor Mechem in his work on Agency says at Section 1719:

> "It is the fundamental principle of the law of agency that what one person does for and by authority of

another, is to be considered as the act of that other. The principle has taken the form of the familiar maxim, *qui facit per alium, facit per se.*"

In *Virtue* v. *Creamery Package Company*, 227 U. S. 8, it was held that the manufacturer of a patented article did not violate the Sherman Act by giving the exclusive sale thereof to one agent. If an exclusive agency to one agent is not unlawful restraint of trade, how can it be *restraint* of trade to appoint more than 20,000 non-exclusive agents?

In *Waltham Watch Co.* v. *Keene*, 202 Fed. Rep. 225 (D. C., N. Y., 1913; affd. 209 Fed. 1007), the Court, in commenting on the *Virtue* case, *supra*, said, page 240:

> "As stated, an exclusive sales agent of the manufacturer under a patent *is but exercising the sole right to vend expressly conferred by the patent statute.*"

In *Bobbs-Merrill Co.* v. *Straus*, 139 Fed. Rep. 155 (C. C., N. Y., 1905; affd. 147 Fed. 15; 210 U. S. 339), the Court said at pages 190, 191:

> "Each owner of the copyright of a book has a monopoly of that particular book. * * * Should he or it print or publish one or more copies of these books, such person or corporation *could appoint agents to sell and prescribe and limit their powers.* He or it could license one or more persons to sell, and prescribe the terms and conditions of such sale, *and limit the price at which same should be sold. Assume that such person or corporation has fixed the price at which such book shall be sold at retail by such agents and licensees*, and may restrain a disposition of such books in violation of the conditions, *we have no combination or conspiracy.*"

By distributing lamps through agents the General Company merely reserves, for exercise by it alone and under its direction, the exclusive right granted to it by the Patent Laws, namely, the exclusive right of sale of its patented products. All of the sales are made by it, through its salaried salesmen or through its agents acting for it and on its behalf.

PART II.

THE LICENSE TO WESTINGHOUSE COMPANY.

Preliminary to a consideration of the license to the Westinghouse Company, the general situation in the electric lamp industry should be had in mind.

This industry is one which was created by the General Company and its predecessors in business, and was carried forward and developed by them and by the Westinghouse Company.

It began with the incandescent electric lamp having the carbon filament invented by Edison in 1880 and, shortly thereafter, put on the market by one of the predecessors in business of the General Company (Tr. p. 88, Par. 2). The reports are full of decisions in litigations on the Edison patent, which was repeatedly sustained. The main case was *Edison Electric Light Co.* v. *United States Electric Light Co.*, 52 Fed. Rep. 300 (C. C. A. 2).

In 1904 the carbon filament was very much improved by an invention which resulted in what was known as a "metallized" carbon filament. That invention cut down the current consumption by one-fifth, as compared with the ordinary carbon filament lamp, for the production of an equal amount of light.

Then a lamp having a filament made of the metal tantalum was introduced, but it was not satisfactory for use on alternating current circuits.

Finally, the lamp having the filament made of the metal tungsten was invented by Just & Hanaman, whose United States patent No. 1,018,502 issued to the General Company in 1912. That patent discloses a means of making a tungsten filament and broadly claims an incandescent electric lamp filament composed of substantially pure tungsten—no matter

how made. This was an enormously valuable contribution to the art of electric lighting.

As seems to be inevitable in the case of every radically new and important invention, others soon undertook to make lamps in infringement of the Just & Hanaman patent. So litigation began almost at once and has continued uninterruptedly up to the present time, but with decisions uniformly in favor of the patent. The effect of the Just & Hanaman invention upon the industry is thus expressed in the first of the decisions on final hearing on this patent rendered in 1916 (233 Fed. Rep. 100):

> "In this country, the application which resulted in the patent in suit was filed July 6, 1905. The revolution in the art has been striking. The carbon filament has almost disappeared. The Osmium, Nernst and Tantalum lamps made no impression on the art. The Gem, which gave promise of a brilliant future, is on the retrograde. The tungsten lamp represents a commercial use expressed in figures which are dazzling, even in this day when we are no longer astounded by mention of millions of men or money.
>
> "From practically zero per cent. of sales in 1907 in the American market the per cent. in 1914 by consistent upward movement was 71. Carbon, over 93 per cent. in 1907, had been reduced in 1914 to less than 10 per cent. Tantalum, about 10 per cent. in 1907, was reduced in 1914 to zero. The Gem, rising from about 6 per cent. in 1907 to over 33 per cent. in 1912, was down to 22 per cent. in 1914, and the claim is made that the difference in cost of incandescent lighting between the use of the tungsten lamp and that of the Gem would represent a saving to the American public of over $203,000,000 annually."

This large saving to which reference is here made (which is, of course, very much larger now in view of the increased use of electric lighting during the last ten years) is due to the fact that the tungsten filament lamp consumes only about one-third as much current as did the carbon filament lamp and less than half as much as the "metallized" carbon filament lamp, for the production of an equal amount of light (Tr. p. 89).

Just & Hanaman created the tungsten lamp industry, their patent being for an invention which is now utilized in all lamps manufactured throughout the United States, except the inconsiderable number of carbon filament lamps still being made (Tr. p. 90, Par. 7). But the tungsten filament made by them "was fragile, and this difficulty led to further endeavor, eventuating with the ductile drawn tungsten filament of Dr. Coolidge", as was said in 1919, in 261 Fed. Rep. 607.

That invention was patented by Coolidge in patent, No. 1,082,933, which was issued in 1913 to the General Company in whose Research Laboratories the invention was made (Tr. p. 89, Par. 4). It accomplished what had long been considered impossible. The metal, tungsten, had been known for many years, but "it was with frequency and uniformity pronounced hard, brittle, unworkable and non-ductile" (267 Fed. Rep. 826). Just & Hanaman had made a tungsten filament, "not by drawing, but by mixing a fine tungsten powder into a wet paste, with starch or sugar to act as a binder, squirting the paste into a thread, drying and baking the threads, hanging up each thread in an atmosphere of moist hydrogen, passing electric current through it, whereby the carbon in the binding material was removed * * * and the particles of the tungsten sintered or softened and stuck together until the threads became consolidated into filaments, which, though exceedingly brittle, were usable in incandescent lamps" (267 Fed. Rep. 826). The Just & Hanaman filament "brought about the enormous advantage of diminishing the power necessary for a given illumination to approximately one-third of the amount formerly required, and produced a whiter light" (267 Fed. Rep. 826), but it was brittle. "The specific problem was how to make ductile a metal naturally and normally non-ductile" (267 Fed. Rep. 827), and, as the Court proceeded to say (267 Fed. Rep. 827, 828, 832):

> "Coolidge solved it, and produced wrought tungsten, or 'Coolidge metal', having properties differing most radically from those of the normal or natural tungsten metal. * * * The ductile tungsten filament has

gone into general use, and has in large measure, if not entirely, supplanted all other filaments. * * * [The Coolidge] method * * * is the process that revolutionized the electric lamp industry."

But there was still another most important invention to be made, and it was made by Langmuir in the Research Laboratories of the General Company (Tr. p. 89, Par. 4). "The tungsten lamp with the Coolidge filament marked the furtherest and latest advance in the art until the Langmuir invention" (261 Fed. Rep. 607).

What Langmuir did, for which patent No. 1,180,159 issued to the General Company in 1916, was that which is described in lay language in the following, quoted in one of the decisions (261 Fed. Rep. 608):

> "*Nitrogen-Filled Lamps.*—This type of lamp has a closely coiled helical filament of drawn tungsten wire mounted in a glass chamber filled with nitrogen or other inert gas. The pressure of the gas retards the decay of the filament, so that it may be operated with a satisfactory life at a higher temperature than is practicable in a vacuum. The gain in radiant efficiency so obtained is offset in part by the convection of heat from the filament by the gas. When the diameter of the filament is minute, there is little or no net gain in efficiency. When the filament is relatively heavy, the net efficiency may be doubled. The helical coiling of the filament increases its effective diameter as a radiant, and simplifies the problem of its support, for the filament is distinctly soft when incandescent. The gas-filled lamp has an elongated bulb, the upper portion of which serves as a cooling chamber. The walls of this chamber receive the black deposit from the filament, but are so placed that they absorb but little of the useful light. The gas-filled lamp is designed for operation in a pendant position. Such lamps are much more brilliant than vacuum lamps, and should be fully shaded. The light of the gas-filled lamp is decidedly whiter than that of the vacuum tungsten lamp."

As was further said in the same decision (261 Fed. Rep. 607):

> "The Langmuir lamp has proved extraordinarily successful."

These fundamentally controlling patents—the Just & Hanaman for the tungsten lamp, no matter how the tungsten filament is made, the Coolidge for the ductile filament, the Langmuir for the gas-filled lamp—have been the subject of protracted litigation for many years.

All of the tungsten lamps made by everyone manufacturing in this country embody the inventions of the Just & Hanaman and Coolidge patents, and a large proportion of them embody also the Langmuir invention, as construed in the decisions on these patents (Tr. p. 90, Par. 7).

And these patents have repeatedly been sustained.

The decisions are listed on the sheet here inserted.

It will be noted that the decisions were rendered in nearly all of the years in the period from early in 1916 to late in 1924; that in two instances applications were made to this Court to review on certiorari the decisions on the Just & Hanaman and Langmuir patents, the applications being denied; and that the patents have been sustained and enforced against twelve defendants, in all, in the courts in New York, New Jersey, Rhode Island and Minnesota.

By this wide-spread, protracted and successful litigation adjudicating the ownership of the patents by the General Company, the validity and the great importance of the patents, their broad scope and their infringement, it is clearly established that the General Company is entitled, under these patents, to that exclusive right which is contemplated by the patent laws, namely, the right to exclude all others from the manufacture, sale and use of tungsten filament lamps, and to do all of the business itself.

But the General Company chose not to exercise this right.

In 1912 it granted a license to the Westinghouse Company and it has granted licenses to other manufacturers, thirteen of which licenses are now in force. These licensees, in the years 1921, 1922 and 1923 did, in the aggregate, about 25% of the total business in tungsten filament lamps (Tr. p. 91).

In the same years the General Company did, as an average, about 64% of the total business.

General Electric Co. v. *Laco-Philips Co.*, on Just & Hanaman patent:

February, 1916, District Court, New York, Final Hearing......... 233 Fed. Rep. 97
June, 1916, Second Court of Appeals........................... 233 " " 96

General Electric Co. v. *Nitro-Tungsten Lamp Co.*, on Langmuir patent:

October, 1919, District Court, New York, Final Hearing......... 261 Fed. Rep. 606
June, 1920, Second Court of Appeals........................... 266 " " 994

General Electric Co. v. *Independent Lamp & Wire Co.*, on Coolidge patent.
June, 1920, District Court, New Jersey, Final Hearing........... 267 Fed. Rep. 824

General Electric Co. v. *Alexander et al.*, on Just & Hanaman and Langmuir:

October, 1921, District Court, New York, Final Hearing.......... 277 Fed. Rep. 290
April, 1922, Second Court of Appeals........................... 280 " " 852
Certiorari denied .... 260 U. S. 727

General Electric Co. v. *Continental Lamp Works*, } on Langmuir:
" " " v. *United Lamp Manufacturers Corp.*, }

April, 1922, Second Court of Appeals, Preliminary injunction..... 280 Fed. Rep. 846

General Electric Co. v. *Incandescent Products Co.*, on Langmuir patent:

May, 1922, District Court, New Jersey, Preliminary Injunction.... 280 Fed. Rep. 856

General Electric Co. v. *Nitrogen Electric Company*, on Langmuir patent:

March, 1923, District Court, New Jersey, Preliminary Injunction... 292 Fed. Rep. 384

General Electric Co. v. *P. R. Mallory & Co.*, } on Just & Hanaman and Langmuir:
" " " v. *Save Electric Corporation*, }

February, 1923, District Court, New York, Preliminary Injunction. 286 Fed. Rep. 175, 180
December, 1923, " " " , Final Hearing,.... . 294 " " 562, 567
April, 1924, Second Court of Appeals, . 298 " " 579
October 20, 1924, Certiorari denied. . 266 U. S. 609

General Electric Co. v. *Brite-Lite Lamp Company*, on Langmuir patent:

July, 1923, District Court, Rhode Island, Preliminary Injunction... 290 Fed. Rep. 967

General Electric Co. v. *Minneapolis Elec. Lamp Co.* on J. & H. and Langmuir:

October, 1924, District Court, Minnesota, Preliminary Injunction.. 10 Fed. (2nd) 851

In addition, preliminary injunctions have been granted in other cases in which no opinions have been rendered.

The balance of the business in tungsten filament lamps has been done by the various infringers of the above mentioned patents.

Upon the issuance of the above mentioned, fundamental Just & Hanaman patent the General Company had the right to exclude all others from making, using or selling tungsten filament lamps. In *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 424-5, this Court said that a patentee

> "receives nothing from the law that he did not have before, and that the only effect of the patent is to restrain others from manufacturing and using that which he has invented. *United States* v. *Bell Telephone Company*, 167 U. S. 224, 249. * * * Whenever this Court has had occasion to speak it has decided that an inventor receives from a patent the right to exclude others from its use for the time prescribed in the Statute. 'And for his exclusive enjoyment of it during that time the public faith is forever pledged' (Chief Justice Marshall in *Grant* v. *Raymond*, 6 Pet. 243, p. 242).
>
> "And in *Bloomer* v. *McQuewan*, 14 How. 539, 549, Chief Justice Taney said: 'The franchise which the patent grants consists altogether in the right to exclude every one from making, using or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent.'"

To the same effect see *Bauer & Cie* v. *O'Donnell*, 229 U. S. 1, 10; *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502; *United Shoe Machinery Co. et al.* v. *United States*, 258 U. S. 451, 463; *Crown Dye & Tool Co.* v. *Nye Tool & Machine Works*, 261 U. S., 24, 34, 35, 37.

And the patent owner is under no obligation to use his invention or to permit or cause others to use it. If the patentee sees fit, he may reserve to himself the exclusive use of the invention or discovery. *Continental Paper Bag Company* v. *Eastern Paper Bag Company*, 210 U. S. 405, 425; *U. S.* v. *Bell Telephone Co.*, 167 U. S. 224, 250.

Accordingly, the General Company was under no obligation to grant a license to the Westinghouse Company, nor to

anyone. It was free to keep all of the rights under its patents to itself, or to "keep some of them and transfer others", as was said in *Virtue* vs. *Creamery Package Co.*, 227 U. S. 8, 32. It had the right and "power of granting it [the use of the invention] to some and withholding it from others—a right of selection of persons *and terms*", as was said in *U. S.* v. *United Shoe Machinery Co.*, 247 U. S. 32, 57.

It chose to grant a license to the Westinghouse Company in March, 1912, which license is still in force.

The License to Westinghouse Company.

The license (Tr. p. 116) is a *non*-exclusive license, for which the Westinghouse Company pays a royalty. The General Company remains free to grant licenses to others—which it has done.

Moreover, the Westinghouse Company desired and was in this license agreement, granted (Tr. p. 123) the right to receive from the General Company complete manufacturing and engineering information and was permitted to study the methods and processes of making incandescent lamps as used by the General Company. It was, therefore, in a position to base its development upon the General Company's work, and to make lamps of approximately the same quality as the product of the General Company. Accordingly, the General Company required, as a condition of the granting of the license, that the Westinghouse Company should grant to the General Company a license under such patents and patents to issue on pending applications as the Westinghouse Company then might own relating to incandescent electric lamps and under any patents for such inventions as might be owned by it during the term of the contract (Tr. p. 117). Such license is non-exclusive and free of restrictions or conditions. It was reasonable and necessary in order that both companies might be able to use the best and latest improvements made by either and thereby

reduce cost, improve quality and give to the public the benefit of those improvements, and was particularly reasonable in view of the fact that the Westinghouse Company received, under the contract, full knowledge of the General Company's development work and manufacturing facilities upon the basis of which the Westinghouse Company might make inventions.

And the General Company further required, in granting the non-exclusive license to the Westinghouse Company, that that Company should not, in utilizing rights granted to it under property of the General Company, destroy or impair the value of that property to the General Company by selling such lamps at prices lower than those which the General Company, owning that property, determined to be its value as measured by its sales prices of lamps from time to time (Tr. p. 121), or by interfering with its policy of sales through agents (Tr. pp. 122-123).

The terms and provisions of this license, under which the parties have been operating for the fourteen years last past, are entirely reasonable and proper.

(a) The owner of a patent, having a right to exclude all others, does not restrain trade or suppress competition by permitting another to use his invention.

The exercise of rights granted by the Patent Law is not a violation of the Anti-trust Laws. *Virtue* v. *Creamery Package Co.,* 227 U. S. 20, 32, 33; *Bement* v. *National Harrow Co.,* 186 U. S. 70.

The underlying reason is probably that expressed in *Robinson on Patents,* page 51, where Prof. Robinson, in discussing the nature of the patent monopoly, said:

> "It differs from an odious monopoly in this—that in the odious monopoly the public are deprived of some existing method of enjoying these rights, while the patent privilege prevents their exercise only in the one direction marked out by the discovery of the inventor."

The owner of a valid patent has a lawful monopoly, within its proper scope. He may withhold the use of his invention from every one else. Therefore, it is self evident that he does not suppress competition or restrain trade by permitting others to use his invention. On the contrary he promotes competition. If the patentee grants permission for a partial or restricted use, only, of his invention, he likewise promotes competition to the extent of the use authorized.

(b) In a license granting rights under a patent, the patentee may impose reasonable terms and conditions under which the invention may be used, including restrictions as to price, to protect its own use of the invention and secure its benefits.

In *Bement & Sons* v. *National Harrow Company*, 186 U. S. 70 (1902), this Court said, at page 88:

> "The plaintiff, according to the finding of the referee, was at the time when these licenses were executed the absolute owner of the letters patent relating to the float spring tooth harrow business. It was therefore the owner of a monopoly recognized by the Constitution and by the statutes of Congress. An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it."

The court recognized that there might be two exceptions on the right of a patentee:

(1) A state legislature, in the exercise of its police power, may regulate the sale of patented articles.

(2) Where the licensee is a public utility (a telephone company) it may not be prohibited by a license from performing its duties to the public (supplying service to any customer, even another telephone company).

On page 91 it was said:

> "Notwithstanding these exceptions the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

Again at page 92:

> "But that statute" (the Sherman Act) "clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the articles may be used and the price to be demanded therefor. Such a construction of the act, we have no doubt, was never contemplated by its framers."

The license sustained in the *Bement* case prohibited the licensee from selling at a less price or on more favorable terms of payment and delivery to the purchasers than was set forth in Schedule B attached to the license; from allowing rebates or reductions from the price; and from shipping the patented harrows for sale on commission. These restrictions applied only to *original sales* by the licensee. As this Court said, page 93:

> "The provision in regard to the price at which *the licensee would sell* the article manufactured under the license was also an appropriate and reasonable condition. * * * The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it, or sell the *right* to manufacture and sell the article patented, upon the condition that the assignee shall charge a certain amount for such article." (Italics ours.)

The Government argues that the principle of the *Bement* case is wrong and that it should be overruled. The contention, in substance (Brief, pp. 69, 79, 81-84), is that one who manufactures a patented article, under a license from the patentee, is the owner of that article the same as if he had purchased it from the patentee, and, as no resale price restrictions may be imposed upon a purchaser, no price restrictions may be imposed upon a licensee.

This contention overlooks the real source of the restraint upon patented articles before sale by the licensee. Suppose that a patentee grants to another person a license to *make* and *use* the patented article, but no right to *sell* it, the exclusive right to sell being reserved by the patentee. Such a license is valid. The rights to make, to use, and to sell, being severable rights, a patentee may confer them separately (*Adams* v. *Burke*, 17 Wall. 453, 456). Under such a license to *make* and *use*, the licensee has no authority to sell the patented article. If he sells it he is an infringer and his purchaser, by using or reselling it, also becomes an infringer (*Mitchell* v. *Hawley*, 16 Wall. 544). But under such a license, the licensee is the owner of the article which he makes; it does not belong to the patentee; it belongs to the licensee; nevertheless the licensee has no right to sell it, *because the exclusive right to vend is vested by the Patent Law in the patentee, and the patentee has not released that right. This "restraint on alienation" is not imposed by any contract, but by the Patent Law itself. The article, although owned by the licensee, remains subject to the patent monopoly in so far as its sale is concerned.*

Therefore, the rule against "restraints upon alienation" does not apply to patented articles which have been manufactured by such a licensee, although under authority from the patentee. *The licensee does not get his right to sell merely from his ownership of the property.* He may convey title to the physical property, but unless he has authority from the patentee to make the sale, he cannot confer upon his

purchaser or any subsequent purchasers two important incidents of ownership—the right to use, and the right to resell.

In this respect, there is a difference between the patentee and his licensee. When a patentee sells his patented article, he does so by virtue of his common law right to sell, and by that sale it passes out from the patent monopoly and his purchaser has the right to use and to resell. But the licensee needs something more than his mere common law right to sell property which he owns. He must have authority from the patentee to make the sale.

And if a licensee has that authority, and makes a sale, he thereby exercises a part of the exclusive patent rights of the patentee, which the patentee has conferred upon him. He must exercise that right in order to grant to the purchaser immunity under the Patent Law. It was said in *Adams* v. *Burke,* 17 Wall. 453, 456, that when a patentee, "*or the person having his rights*" sells patented property, it is free from the patent monopoly. But, obviously, in order to free the property from the patent, the seller must have the patentee's right to do so. In other words, in selling the property and thus freeing it from the rights of the patentee, the licensee is not merely exercising his common law right to vend, but, in addition thereto, he is exercising a part of the patentee's rights.

This was pointed out by Judge Ray in *Waltham Watch Co.* v. *Keene,* 202 Fed. 225 (D. C. N. Y. 1913; aff'd without opinion 209 Fed. 1007), in which it was held that after a patented article had been sold, restrictions on the resale prices thereof may not be imposed on the purchaser. Although decided prior to the line of cases upon that subject decided by this court beginning with *Bauer* v. *O'Donnell,* 229 U. S. 1, Judge Ray's decision is in accord with them. Referring to the provisions in the license considered by this court in the *Bement* case which required the licensee to sell at prices fixed by the licensor, Judge Ray said, page 238:

> "This was but a fixing of the price by the patentee himself at which it should go on the market at all as

a product manufactured under the patent. *The sale by the licensee was the original sale and but the exercise of the sole right to vend given the patentee by the patent law.* It is immaterial that the patentee exercised this sole right to make and sell through his agent *or his licensee.*" (Italics ours.)

This was also recognized in *Bauer* v. *O'Donnell*, 229 U. S. 1, 16, 17, cited by the Government, wherein it was said:

> "The jobber from whom the appellee purchased had previously bought * * * the packages of Sanatogen afterwards sold to the appellee. The patentee had no interest in the proceeds of subsequent sales, *no right to any royalty thereon*, or to participate in the profits thereof. * * * The appellee and the jobbers from whom he purchased were neither the agents *nor the licensees* of the patentee." (Italics ours.)

Now, if in making the original sale and releasing the property from the patent monopoly, the licensee is exercising a part of the patentee's statutory right, it follows that the patentee, in authorizing the licensee to exercise that right, may place limitations upon that authority, and in doing so, the patentee does not go beyond the rights conferred by his patent. He is merely granting the licensee partial rights under his patent.

A patentee may restrict the licensee from selling to certain customers. In *Providence Rubber Co.* v. *Goodyear*, 9 Wall. 788, 800, a license provided that it was not intended to authorize any sales to the United States Government. This court held that sales by the licensee to the Government constituted an infringement of the patent.

Under the Government's argument, that restriction was outside of the patent monopoly, for it limited the freedom of the licensee in selling his own property to whomsoever he might choose. Yet it was sustained by this court.

If a patentee may grant a right to sell to certain customers only, why may he not grant a license to make sales only at

certain prices and on certain terms? If he may designate the vendee to whom his licensee may sell, why may he not designate the price also? A vendee is not the only element in a sale. The price also is a necessary element. As was said in *In re Columbus Buggy Co.*, 143 Fed. 859, 860 (C. C. A., 8):

> "An agreed price, a vendor, a vendee, an agreement of the former to sell for the agreed price and an agreement of the latter to buy for and to pay the agreed price are essential elements of a contract of sale."

The patentee often has a substantial interest in the price to be charged by his licensee. This court will take judicial notice of the fact that many licenses are granted under which the patentee's compensation is a royalty based upon a percentage of the sales of the patented article. In such cases, the patentee's compensation is directly affected by the price for which the articles are sold.

And there are also many cases like the instant case, where the patentee himself is engaged in manufacturing and selling the patented article. For the protection of his own business he has a direct interest in the prices and terms at which the article is sold. This is especially true in the instant case where manufacturing and technical information is given to the licensee in addition to the license. In that respect, the validity of restriction upon prices and terms of sale does not depend upon the patent laws alone, but is valid as a partial restraint necessary to the protection of the licensor. But we discuss that matter elsewhere (pp. 76-82, 81 *infra*).

The Government argues that all a patentee receives by his patent is the right to exclude others. That is too narrow a view. This court pointed out in *Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U. S. 24, 36, that the right which the patent confers is not merely the right to exclude others, but is exclusive enjoyment of the patentee's common law right to make, use and vend. It was therefore held that the mere right to exclude others is not such an interest as

may be assigned under the patent laws, so as to enable the assignee to sue to enjoin future infringements and collect damages. This court said:

> "It is the fact that the patentee has invented or discovered something useful, and thus has the common law right to make, use and vend it himself, which induces the government to clothe him with the power to exclude everyone else from making, using or vending it. *In other words, the patent confers on such common law right the incident of exclusive enjoyment, and it is the common law right, with this incident, which a patentee or his assignee must have.* * * * The government is not granting the common law right to make, use and vend, but it is granting the incident of exclusive ownership of that common law right, *which cannot be enjoyed save with the common law right.*"

Therefore, the exclusive right which the Patent Law confers is not something wholly separate and apart from the patentee's common law right to sell. It is an incident which is engrafted upon that common law right.

We submit that the *Bement* case was rightly decided by this court.

Its doctrine was applied in *Coca Cola Co.* v. *State* (Tex. Civ. App.), 225 S. W. 791 (1920), wherein the State charged a violation of the Texas Anti-trust act. The Coca Cola Company, owner of the registered trade mark, "Coca Cola", entered into a contract granting to another corporation, the Coca Cola Bottling Company, the exclusive right to manufacture and sell Coca Cola in bottles in the state of Texas; the Bottling Company agreeing to buy the syrup exclusively from the Coca Cola Company, the latter company agreeing not to sell its bottling syrup to any one else in Texas. A judgment in favor of the State was reversed, the Court saying:

> "The Constitution of the United States, however, expressly provides for the creation of monopolies in the matter of patent rights, trade marks and copyrights. Article 1 #8. Congress has legislated under this provision, and no state can nullify its acts. 'The very ob-

ject of these laws is monopoly.' *Bement* v. *Harrow Co.*, 186 U. S. 91; *Tea Co.* v. *Cream of Wheat Co.*, 224 Fed. 572.

* * * * * *

"The owner of a patent right, copyright, or trade mark, having the exclusive right to manufacture and sell the article protected thereby, and being under no legal obligation to grant such right to another, may impose upon his assignee such restrictions as he may see proper, and to which his assignee will agree, including *the price* which the article may be sold, the territory in which it may be manufactured. * * *

"The owner of an article protected by a patent, copyright or trade mark, when he has manufactured and sold the same, cannot impose restrictions upon his *vendee*, as to the *future* sale of the same. *Having parted with his ownership therein, it enters the channels of trade as an article of commerce, and is thereafter beyond his control.* * * * There is, however, a marked distinction between the sale of an *article*, the manufacture of which is protected by a patent or copyright, or the right to use a trade mark in connection with the sale thereof, and the sale of the *right* so secured. In the one case, the *finished article* ready for commerce is sold. In the other case, nothing tangible is sold, but only the *right* to produce and sell such tangible article; in other words, the right to use the exclusive privilege which has been granted to the owner of the patent, copyright or trade mark, which, as we have seen, may be granted upon such terms as the parties may agree upon, or, failing such agreement, may be withheld altogether. The right of the owner of property to dispose of the same upon such terms as he may see proper is universal. The right to fix the terms upon which another (his vendee) may dispose of his property is deemed as being a restraint upon the freedom of trade."

The Government contends (Brief, p. 66) that in the opinion in the *Bement* case

"the Court based its conclusion almost entirely upon the authority of *Heaton Peninsular Button Fastener Company* v. *Eureka Specialty Co.*, 77 Fed. 288, which was decided by the Circuit Court of Appeals for the Sixth Circuit * * *."

It is true that the *Button Fastener* case is cited and quoted from, in the opinion of this court in the *Bement* case, but merely in stating the right of a patentee to exclude all others from the use of the invention. While *Henry* v. *Dick*, 224 U. S. 1, has been overruled, it may properly be referred to in this connection. The opinion in *Henry* v. *Dick* cited the *Bement* case, saying (p. 28):

> "Touching the right of the patentee to exclude all others from the use of his invention the Court quoted with approval what was said in the *Button Fastener* case."

For that matter, this court not long since cited the *Button Fastener* case for its analysis of the rights of a patentee (*Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U. S. 24, 34).

In the *Button Fastener* case a machine had been sold with a condition as to use with certain unpatented materials. In the *Bement* case, there was no sale, but a license granting the right to manufacture and sell. Thus the facts were materially different.

In *Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339, counsel contended that the *Button Fastener* case, and other decisions of the Circuit Court and Circuit Court of Appeals expressed the law, saying (see p. 343):

> "And we have been especially confident that such must be the case, for the reason that this court, in *Bement & Sons* v. *National Harrow Company*, 186 U. S., page 70, has given its sanction to the broad doctrines laid down in the *Heaton Peninsular Case*, 77 Fed. Rep. 288 (the *Button Fastener case*).

But this court said (p. 343):

> "A case such as the present one, concerning inventions protected by letters patent of the United States has not been decided in this court, so far as we are able to discover."

And again at page 345:

> "In *Bement & Sons* v. *National Harrow Co.*, 186 U. S. 70, the suit was between the owners of the letters patent

> as licensor and licensees, seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued on in the state court, and, of course, does not dispose of the questions to be decided in this case."

In the dissenting opinion in *Henry* v. *Dick*, 224 U. S. 1 (1912), Mr. Chief Justice White referred to the *Button Fastener* case and continued (p. 69):

> "Since the decision however, this court, in *Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339, 345, has expressly declared that *the doctrine had never been upheld by this court.*" (Italics ours.)

It is clear, therefore, that the *Bement* case was not decided upon the authority of the *Button Fastener* case and did not fall with it.

In its Brief, the Government contends that the principles upon which *Bement* v. *National Harrow Company* was decided have been disapproved in later decisions of this court, such as *Bauer* v. *O'Donnell,* 229 U. S. 1 (1913); *Straus* v. *Victor Talking Machine Co.,* 243 U. S. 490 (1917); *Motion Pictures Patents Co.* v. *Universal Film Mfg. Co.,* 243 U. S. 502 (1917) and *Boston Stores* v. *American Graphophone Co.,* 246 U. S. 6 (1918).

There is an important distinction between the license considered in the *Bement* case and the transactions considered in the subsequent decisions. The *Bement* case involved a license to manufacture and sell under a patent, and the sales made by the licensee were *original sales.* In the transactions considered in the subsequent decisions, the articles had been sold by the patentee (or by those to whom the patentee had granted the right to sell) and the question in each case was whether restrictions could be imposed upon the *purchasers.* This distinction was pointed out in the case upon which the Government so much relies: *Dr. Miles Medical Co.* v. *Park,* 220 U. S. 373, 402, in which the manufacturer

of goods under a secret process made contracts attempting to fix the prices for which the goods could be resold. This court said:

"The complainant relies upon the ownership of its secret process and its rights are to be determined accordingly. * * * The secret process may be the subject of confidential communication and of sale or *license to use with restrictions as to* territory and *prices. Fowle* v. *Park*, 131 U. S. 88. * * * Here, however, the question concerns *not the process of manufacture but the manufactured product*—an article of commerce." (Italics ours.)

The same distinction was touched upon in *Bloomer* v. *McQuewan*, 14 How. 539, 549, wherein it was said:

"And when he (the patentee) sells the *exclusive privilege* of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. *He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States.* And the interest he acquires, necessarily terminates at the time limited for its continuance by the law which created it. The patentee cannot sell it for a longer time. * * * But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the Act of Congress, nor does he derive title to it by virtue of the exercise of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. * * * Moreover, the value of the implement or machine in the hands of the purchaser for use, does not in any degree depend on the time for which the exclusive privilege is granted to the patentee; nor upon the exclusion of others from its use." (Italics ours.)

And in *Waltham Watch Co.* v. *Keene*, 202 Fed. 225 (D. C. N. Y., 1913, affd. without opinion 209 Fed. 1007), Judge Ray said, referring to the *Bement case* (186 U. S. 70), page 237:

"Here, it is seen, the owner of the patents did not manufacture or sell. He licensed another to do both on

certain conditions and subject to certain restrictions. There was no limitation on or fixing of prices on *resales.*"

Again, page 238:

> "Neither the licenses, the case nor the court dealt with *resales* by dealers who had purchased from such licensee and paid the full price, including royalty or tribute for the article * * *."

Thus the restrictions in the Bement license were restrictions upon the *licensee* and related to *original sales* only, just as is the case of sales under the license to the Westinghouse Company. In the later decisions it was attempted to impose restrictions upon *purchasers* as to the resale or use of the articles which they had bought and paid for.

We shall now briefly consider the decisions of this Court subsequent to the *Bement* case.

In *Bauer* v. *O'Donnell*, 229 U. S. 1, the Court defined the question for determination as follows (p. 11):

> "May a patentee by notice limit the price at which future retail *sales* of the patented article may be made, such articles being in the hands of a retailer *by purchase from a jobber who has paid to the agent of the patentee the full price asked for the article sold?*"

The distinction between *original sales* by the patentee, or his licensee, and *subsequent resales* was clearly pointed out on page 17:

> "The appellee and the jobbers from whom he purchased were *neither the agents nor the licensees* of the patentee. They had the title to, and the right to sell, the article purchased without accounting for the proceeds to the patentee, and without making any further payment than had already been made in the purchase from the agent of the patentee. * * * *The right to vend conferred by the patent law has been exercised,* and the added restriction is beyond the protection and purpose of the act."

Again, on page 18, the Court quoted from *Adams* v. *Burke*, 17 Wall. 453, in part as follows:

> "But in the essential nature of things, when the patentee, *or the person having his rights, sells a machine* or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, *passes without the limit of the monopoly.* That is to say, the patentee *or his assignee* having *in the act of sale* received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restrictions on account of the monopoly of the patentee."

In *Motion Pictures Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917), the Court said (p. 508) that the case presented two questions for decision:

> "First, May a patentee or his assignee license another to manufacture and *sell* a patented machine, and by mere notice attached to it limit its use *by the purchaser* or by the purchaser's lessee, to films which are no part of the patented machine, and which are not patented."
>
> "Second, May the assignee of a patent, which has licensed another to make and sell the machine covered by it, by a mere notice attached to such machine, limit the use of it by the *purchaser* or by the purchaser's lessee to terms not stated in the notice, but which are to be fixed, after sale, by such assignee, in its discretion."

The court answered both questions in the negative, overruling *Henry* v. *Dick*, 224 U. S. 1. That the *Motion Pictures Patents* case did not nullify or overrule the *Bement* case, however, appears from statements in subsequent decisions of this Court. In *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8 (1918), decided about one year later, the Court, after reviewing a number of earlier decisions, including the *Motion Pictures Patents* case, said, at page 26:

> "In addition, through perhaps an abundance of precaution, we direct attention to the fact that nothing

in the decided cases to which we have referred, having regard either to the application of the general law or of the patent law, deprives an inventor of any right coming within the patent monopoly, *since the cases alone concerned whether the monopoly of the patent law can be extended beyond the scope of that law, or, in other words, applied to articles after they have gone beyond its reach.*"

A similar view was expressed in *United States* v. *United Shoe Machinery Co.*, 247 U. S. 32 (decided shortly after *Boston Store* v. *Graphophone Co.*), where, after stating the rights of a patentee, the Court said, on page 58:

> "Indeed, we said in the *Paper Bag Patent Case* that he may keep his invention out of use. Therefore, he necessarily has the power of granting it to some and withholding it from others, a right of selection of persons and terms. There is, however, a limitation upon him; he cannot grant the title and retain the incidents of it. *Strauss* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Bauer* v. *O'Donnell*, 229 U. S. 1; *Motion Pictures Patents Co.* v. *Universal Film Co., supra.*
>
> "These cases have received review and application in *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U. S. 8. *The principle of them was expressed to be that where an article has been sold it passes beyond the monopoly given by the patent,* and conditions cannot be imposed upon it."

Nor was the *Bement* case overruled by *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20 (1912). On the contrary the Court said in the latter case, at pages 39-40:

> "And *we shall keep in mind and apply* the principle expressed in *Bement & Sons* v. *National Harrow Co.*, 186 U. S. 70, 92, that the Sherman law 'clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor. Such a construction of the act, no doubt, was never contemplated by its framers'."

In other words, the rule of the *Bement* case that, in granting a license under a patent, the licensor may impose restrictions upon the prices to be charged by the licensee, was approved in the *Standard Sanitary* case.

(d) The restrictions in the Westinghouse license are designed to protect the patent rights which the General Company has reserved for itself, and do not exceed what is reasonably necessary for that purpose.

The General Company is itself engaged in the manufacture of incandescent lamps, under its patents. It will be observed that the restrictions, in the license to the Westinghouse Company, are designed to protect the licensor in the use of its retained patent rights.

In substance, the license (Tr. p. 121), paragraph (13) requires the Westinghouse Company (1) to observe the licensor's "prices, terms and conditions of sale"; (2) to sell only under the licensor's form of "Contract for the Purchase of Incandescent Lamps", or its equivalent, and only in compliance with the licensor's sales rules, and (3) not to interfere with the licensor's agency business by offering or allowing greater compensation than that paid by the licensor, or by appointing as agents any persons of whom the licensor affirmatively disapproves as being irresponsible representatives for handling the licensed lamps.

If the General Company had withheld the license from the Westinghouse Company, as it had a right to do, it could have sold the patented lamps at its own "prices, terms and conditions of sale", under its own form of purchase contract, and in compliance with its own sales rules. The Westinghouse Company would have no right to make or sell lamps at all. The license permits the Westinghouse Company to make and sell lamps, at the same prices and on the same terms and conditions of sale which the General Company adopts, the General Company's prices, terms, etc., being those set forth in Schedule B referred to in the license. That permission to the Westinghouse Company to make and sell lamps does not enlarge the patent monopoly. The effect is to release

the monopoly to the extent that two companies may do what one had the right to do exclusively.

It is not alleged that the prices charged by the General Company have been or are now excessive. In fact, the prices are as low as, or less than, they ever previously have been (Tr. p. 110).

The General Company's license to the Westinghouse Company is a grant of a *right* to manufacture and sell patented lamps. The restrictions are upon the *licensee* and relate to *original sales* only. There are no restrictions upon the resale or use of the lamps by purchasers from the licensee. The license is wholly free from restrictions such as have been held invalid by the courts. For instance:

(*a*) The business of the licensee other than in the lamps covered by the licensor's patents is in no way restricted.

(*b*) There are no restrictions whatever upon the use or resale of the patented lamp subsequent to its original sale.

(*c*) The resale price to be charged by purchasers from the licensee is not restricted.

(*d*) The business of the licensor is not restricted.

As to prices and terms and conditions of sale, the license provides (page 7, paragraph 13):

> "The prices, terms and conditions of sale for use in domestic territory * * * shall, so long as such lamps, respectively, or their processes of manufacture continue to be covered by patents, be those fixed from time to time and followed by the Licensor in making its sales, and the License agrees to maintain such prices, terms and conditions of sale as to such lamps."

The royalties payable to the General Company are a percentage of the Licensee's "net sales of said lamps" embodying the inventions of any of the General Company's patents under which the license was granted (Tr. pp. 117-118). Therefore it has an interest in the prices received and discounts allowed by the Westinghouse Company, in addition to the protection

of the licensor's own business under its retained patent rights. This circumstance has significance, for in *Bauer* v. *O'Donnell,* 229 U. S. 1, 16, it was pointed out that in that case the patented article had been sold and that

> "The patentee had no interest in the proceeds of the subsequent sales, no right to any royalty thereon, or to participate in the profits thereof."

The license sustained in the *Bement* case (pp. 62-63, *supra*) prohibited the licensee from allowing any "rebate or reduction from the price or prices fixed in the license except to settle with an insolvent debtor for harrows previously sold and delivered". It further prohibited the licensee, during the continuance of the license, from selling "its products manufactured under the license at a less price or on more favorable terms of payment and delivery to the purchasers than was set forth in Schedule B" attached to the license (Tr. p. 72 (2) (3)). On page 93 (186 U. S.) this Court said in its opinion in the *Bement* case:

> "The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it, or sell the right to manufacture and sell the article patented, upon the condition that the assignee shall charge a certain amount for such article."

The validity of the restriction as to prices was expressly recognized by the decree of the District Court for the Northern District of Ohio in the earlier case of *United States of America* v. *General Electric Company, et al.,* in Equity No. 8120 (entered October 12, 1911). This case never went to trial, but the decree entered in it provided (Tr. p. 844):

> "Fourth: That the General Electric Company * * * together with the Westinghouse Electric and Manufac-

turing Company, Westinghouse Lamp Company, * * * are enjoined from fixing by combination, agreement, understanding or any other acts between any two, more or all of them, or between them or any of them and others, the price or prices at which any incandescent lamp or lamps of any pattern, character, type or description, whether made or sold under letters patent, license or otherwise, shall be sold or dealt in, either at wholesale or retail; *provided that any of the defendants lawfully owning patents may grant to another defendant* or to others, or may receive, appropriate manufacturing *licenses under such patents*, or under any patents lawfully owned by any of the defendants or others, *upon terms and conditions fixed only by the licensors;* provided further, that any such licensor is hereby enjoined and prohibited from requiring or imposing upon the licensee the fixing of a resale price to be observed by the licensee's vendees."

And again:

"Ninth: That the General Electric Company, as licensor, on the one hand, and Westinghouse Electric and Manufacturing Company * * * as licensees, and each and every one of them, and their officers, agents and servants, are hereby perpetually enjoined and restrained from operating under any license contracts or agreements so far as such contracts or agreements provide that prices and terms of sale of incandescent electric lamps shall be fixed *otherwise than by the licensor* * * *"

Licenses imposing price restrictions on the licensees were sustained in *Indiana Mfg. Co.* v. *J. I. Case Threshing Machine Co.*, 154 Fed. 365 (C. C. A., Seventh Circuit, 1907), *United States Consolidated Raisin Co.* v. *Griffin & Skelley Co.*, 126 Fed. 364, 61 C. C. A. 334 (Ninth Circuit, 1903); *Goshen Rubber Works* v. *Single Tube Tire Co.*, 166 Fed. Rep. 431 (C. C. A., Seventh Circuit, 1908), and *Massie* v. *Asbestos Brake Co.*, 123 Atl. 155 (N. J. Ch. 1922).

As to restriction on the compensation which the Westinghouse Company may pay its agents, the only reference in the license to agents (Tr. pp. 122-123; Petition, pages 18-19)

is a recital that the General Company proposed to appoint agents to sell its patented lamps and that the license was granted only on condition that the licensee would not interfere with such agency business

> "by offering to allow or allowing the Licensee's agents greater compensation than that allowed by the Licensor to its agents as specified in Schedule B, or by appointing as agents persons or companies of whom the Licensor affirmatively disapproves as being irresponsible representatives for handling * * * lamps covered by this license."

The Government's Petition interprets the license as *obligating* the Westinghouse Company to adopt the agency plan. Although an agency plan was evidently in contemplation when the license was granted, and although the Westinghouse Company has adopted it, the license does not so *require*. The Westinghouse Company in fact sells 36% of its lamps without the intervention of agents (Tr. p. 93), and there is nothing to prevent it from selling its entire product by methods other than consignment if it so desires. It may, but it is not *required* to, sell lamps by the agency plan. But if, and so long as, it does sell through agents, the license protects the licensor against interference with its own agency business.

The license sustained in the *Bement* case prohibited the licensee from shipping any patented articles for sale on commission (186 U. S. 70, 72 (2)). As the license in the present case *permits* but does not *require* the licensee to sell through the agency plan, the provisions as to the compensation which the licensee may pay its agents, etc., are mere regulations. If sales through agents may be prohibited altogether, as in the license sustained in the *Bement* case, *a fortiori* they may be regulated as in the Westinghouse license. Indeed, the General Company might properly have *required* the Westinghouse Company to use the agency distribution as one of the considerations for the granting of the license.

The Government complains (Petition, Tr. p. 21) that the

license "prevented all competition between defendants in method of distribution". But a patentee has a lawful monopoly, which means that he may lawfully prevent competition in his patented article. In *Crown Co.* v. *Nye Tool Works*, 261 U. S. 24 (1923), this Court said, page 37:

> "A patent confers a monopoly. So this Court has decided in the *Paper Bag Case, supra,* and many other cases. The idea of monopoly held by one in making, using and vending, connotes the right in him to do that thing from which he excludes others."

In granting partial rights under his patent and thus releasing a part of his monopoly, a patentee may protect that part which he retains by preventing the licensee or assignee from unfairly or unduly competing with him. Such restrictions are not within the prohibitions of the Sherman Law.

If it be claimed that these restrictions exceed the exclusive rights of a patentee under the patent law they still do not offend against the anti-trust law. Both at common law and under the anti-trust law, an agreement in partial restraint of trade is valid if it is merely ancillary to the main purpose of a lawful contract, is necessary to protect the covenantee from the dangers of an unjust use of the fruits of the contract by the other party, and is such only as to afford a fair protection to covenantee, and is not so large as to interfere with the interests of the public.

The common law rules were exhaustively stated by Judge (now Chief Justice) Taft in *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271, 281. We quote therefrom:

> "Covenants in partial restraint of trade are generally upheld as valid when they are agreements * * * (4) by the buyer of property not to use the same in competition with the business retained by the seller."

These common law rules were not abrogated by the anti-trust laws. *Cincinnati, etc. Packet Co.* v. *Bay*, 200 U. S. 179, was a suit to recover an installment of purchase price

of certain river craft, under a contract which bound the vendors to refrain from competing with the vendee for five years. The contract further provided that in case of competition necessitating lower rates, the time of payment should be postponed, but authorized the vendors to cancel the contract if such competition continued for two years without interruption and no annual payment was made. It was contended that the contract was in restraint of trade, and in violation of the Sherman Law, but this court sustained the restraint as reasonable and valid.

The Position of the Government as to the License.

As to the license to the Westinghouse Company, the Government charges in its Petition that

> 1. "First, it *consolidated the patent monopolies* possessed by the defendants and *enlarged in scope and extended in time the monopoly* of manufacturing lamps of a specific character under patents owned by it alone."

The Government's brief is silent as to this charge; and the charge is wholly unwarranted. The license from the General Company to the Westinghouse Company was non-exclusive, and the license from the Westinghouse Company to the General Company was similarly non-exclusive. Neither granted to the other any part of its patent monopoly; that is, neither received any rights to exclude others from the use of the inventions of the other. Each received, merely, freedom from suit against it by the other—each waived the right to exclude the other from the use of its inventions. The agreement did not consolidate or enlarge any monopoly. Its effect was the reverse of this. It destroyed *pro tanto* the monopoly under patents which each held—it opened up those inventions to the use of the other.

> 2. "Second, it provided in specific terms the method by which the defendant Westinghouse Company should distribute its goods, and thereupon prevented competition between defendants in method of distribution."

No. The Westinghouse Company need not use any agency distribution, but, if it does, it must not interfere with the General Company's business in the manner specified in the license (see p. 80, *supra*). But, even if the Westinghouse Company had been required, by the terms of the license, to use the agency distribution such requirement would not have affected the validity of the license; the General Company had a clear right to prescribe such a condition as one of the considerations for the grant.

> 3. "Third, it provided in effect that the lamps made by the Westinghouse Company should be sold at the same prices at which those made by the General Company were sold, and thus destroyed all competition between defendants as to prices."

True. But it has uniformly been held that a patent owner, in granting a license, may make such provisions as to prices at which his licensee may sell as to prevent that licensee from unduly interfering with the patent owner's own business (see pp. 78-79, *supra*).

> 4. "And fourth, as heretofore alleged, the system which the Westinghouse Company thus obligated itself to use is but a subterfuge and a device to fix resale prices and destroy all competition between those handling the lamps made by it."

This is a matter which we have already dealt with at length (see pp. 35-39, *supra*).

5. Another charge is made in the Government's Brief, in substance, that the General Company is obligated by the license to follow the prices which it fixes, with certain liquidated damages provided against the event that it fails to do so. But that provision does not affect the right of the General Company to change its prices as often as it pleases, upon giving reasonable notice to the Westinghouse Company (Tr. 122). It merely means that, having notified the Westinghouse Company of the prices which it has fixed, the General

Company must follow those prices until it changes them and gives notice to the Westinghouse Company of the change.

An interesting illustration of how the General Company has exercised its right to change prices on four of the types of lamps in common use in home lighting appears by comparing its list prices in 1912, as shown by the schedules attached to the Westinghouse license (Tr. 164) with the list prices of the same types of lamps on January 1, 1925 (Tr. 186). The changes, briefly, are as follows:

Size of lamp in watts	List Price per lamp in 1912	List Price January 1, 1925	Reduction
15	0.50	0.27	0.23
25	.50	.27	.23
40	.55	.27	.23
60	.75	.32	.43

Everyone knows that the course of prices of many commodities between 1912 and 1925 has been the reverse of the course of lamp prices as shown above.

No, the license does not take away the General Company's right to change its prices.

The effect of the Westinghouse license was to create competition—restricted in some respects—yet nevertheless competition, in quality of product and in service to the public. Competition of that character is stimulating to both licensor and licensee, and beneficial to the public.

When the patents expire, there will be competition in the respects in which the license is now limited, and the Westinghouse Company, having the advantage of the years of experience in manufacturing under the license, to say nothing of the manufacturing information received from the General Company, will be in a strong position to compete. Here, again, the public benefits.

It is clear that if the Westinghouse license had not been granted the General Company could have sold its lamps at its own prices, terms and conditions of sale, on its own forms of sales contract, and using agents. By licensing the

Westinghouse Company to make and sell lamps, although at the licensor's prices, terms and conditions of sale, on its forms of sales contract, nothing is added to the General Company's patent monopoly. Lamps are sold by two companies instead of by one. The monopoly has been released to the extent of the rights granted by the license.

The Government's Brief.

In the foregoing we have dealt, at large, with the contention of the Government. The emphasis of the Government, in its brief, on the following points, justifies additional comment.

As to the agency method of distribution:

It would seem to be apparent, from the statement of facts contained in the Government's brief, that the General Company's agency system of distribution has not tended to give to it a monopoly in the incandescent electric lamp business. As is pointed out by the Government at pages 6 to 7 of its brief, the General Company, *before* the adoption of its agency method of distribution in 1912, was doing 80% of the business in such lamps in the United States and, *since* the adoption of that method, its percentage has fallen so that, in 1923 it was doing only 61%, the business of unlicensed manufacturers having increased.

That the *volume* of the total business in lamps has increased in more than a decade, is not surprising. That was so inevitable and so obviously to be expected that the Attorney General, to whom the agency method of distribution was submitted in 1912, could not have overlooked it (see Government's brief, bottom of p. 8).

But the Government says that, though the agency method of distribution has not created a monopoly, it has tended to restrain trade, not in the sense of reducing or interfering with trade and commerce—for the lamps have been widely distributed and sold in such increasing quantities that the Government comments upon the large size of the business—

but in the sense of preventing competition in price between the distributors of *the General Company's lamps.*

Any such complaint necessarily presupposes that a manufacturer is legally bound so to distribute its product—if it is to be sold at all—that there shall be such competition.

But, obviously, there is no such obligation. The Government, itself, says at page 56 of its brief, that "it is not denied that the General Electric Company may establish a retail store in every city, town and village in the United States and market its lamps through its own stores" and, if this were done, the lamps could admittedly be sold at prices fixed by the General Company, for the Government states (at the top of p. 44 of its brief) that a "manufacturer may dispose of his goods at a uniform price and at such prices as he may see fit to accept".

So it would seem to be admitted (in full accord with the decided cases, see pages 24-25, *supra*) that jobbers and dealers have *no inherent right* to demand and obtain the General Company's lamps and compete with each other in selling prices of those lamps. That is, the product may be sold by the General Company's employees, the prices being dictated by the General Company and there being no competition in price as between sales made by the various employees. Of course, this will result only by reason of the General Company's agreements, or understandings, with its various employees or its instructions to them. The Government takes no exception to that.

But who may these salesmen be? Must they be *salaried* employees only? May they not be paid on a *commission* basis—a percentage of their sales? Must they handle only the products of the General Company? May not the General Company employ, as salesmen, persons who have had experience in selling electrical products in their several localities and have established places of business there—instead of resorting to the expensive and uneconomic plan, suggested by the Government, of itself establishing a store in every hamlet in the United States? And cannot the General Company

give instructions to these salesmen, no matter who they are or how compensated, as to the prices at which they shall sell its product?

The answers to these questions would seem to be obvious.

The Government, however, says that the iniquity in the agency method of distribution resides in using as salesmen—its agents compensated on a commission basis—those who are jobbers or dealers in various electrical supplies; that the lamps "travel through" the hands of these jobbers and dealers just as do other articles of commerce and that, with reference to such other articles of commerce, "the public has the advantage of competition between these local merchants, and it is as much entitled to such competition in electric lamps as in any other article". The answers to this proposition are:

1. The General Company's lamps do not "travel through" the hands of these distributors in at all the same way as do products which are purchased and sold by distributors (see pp. 32-34, *supra*); and

2. There exists no inherent right to competition as between different sellers of a manufacturer's product so long as that product remains the property of the manufacturer. Of course, if a jobber buys the product of a manufacturer, the latter gives up his control over it; the jobber may then deal with that product as he chooses and the manufacturer cannot control its *resale* price.

The Government states (p. 44) that "the ownership of the property, the commerce in which is restrained, is wholly immaterial", yet it proceeds to rely upon cases to the contrary effect. Thus, the Government's brief says (p. 49) of the *Dr. Miles Medical Company* case that "the principle there declared and applied was that a manufacturer cannot by a system of contracts fix *the resale price of his goods when sold*"; on page 57, it is apparent, from the quotation made from that case, that the decision was dealing with "sales actually made"—with what the situation is when the article

"has once passed under the dominion of the buyer" by sale. (We do not agree with the Government's analysis of the decision in the *Dr. Miles Medical Company* case at pages 37-40 and 47-48 of its brief; our views of what was there decided are at pages 36, 40-46, *supra*).

The whole matter comes down to a determination of the question as to whether the distributors are agents selling the property of the manufacturer, or whether they are purchasers selling their own property which they have purchased from the manufacturer. The Government says at page 43 of its brief that "it is not suggested anywhere that because a contract is called or is couched in the form of a contract of consignment or an agency contract, it can thereby escape the prohibition of the statute". Nor do we suggest it. It is the substance—not the name or the form—of a contract which determines whether or not it is a true contract of agency. And the substance of the contracts now before the Court is that they are true contracts of agency (see pp. 16-20, *supra*). There has been no sale to the agent; he sells the property of the General Company on consignment with him.

This being so, no question of "*resale* prices" is involved in this case. This the Government's brief constantly overlooks—and does this even in that portion of the brief (p. 43) purporting to deal with the situation on the assumption that "the contracts are contracts of agency". Even here it is said that "the restraint results from the fixing of the price at which the article shall *be resold*" (p. 46) and reference is made to the *Dr. Miles Medical Company* case as establishing the principle with reference to a manufacturer attempting to "fix the *resale* prices of his goods *when sold*". But the General Company's agents do not "resell" the lamps; they, acting for and on behalf of the General Company, are authorized to sell not their own property purchased from the manufacturing patent owner (for that would require no authorization and would not be subject to dictation by the manufacturer) but the property of the

General Company which has been temporarily entrusted to their care and has never been sold.

The confusion of thought, or argument, on the part of counsel for the Government, is found, also, on page 44, where it is said that while the manufacturer may dispose of his goods at a uniform price and at such prices as he may see fit to accept, "yet he has no right to suppress competition among those who handle his goods, provided the goods travel through the ordinary avenues of commerce; and if one dealer is willing to accept a smaller profit than another, *that is the dealer's affair*, and he cannot be prohibited from doing so by the manufacturer". But surely when, as in the present case, the dealer does not own the lamps which he holds on consignment, it is *not* "the dealer's affair" as to what he shall do with them or sell them for. It is primarily and obviously the "affair" of the owner of the goods.

Further, it is urged that the agency method of distribution is unlawful because, the Government's counsel say, it was adopted "as a mere device to evade the law and to enable defendants *to fix the resale prices* of their lamps"—"they determined to continue fixing *resale prices* upon their lamps". Here appears again the same confusion of argument. The agency method of distribution does not involve resale prices at all. But the Government says that it enables the defendant "to fix all prices of lamps down to the consumer". This sounds as though it were thought that a series of sales was made through a series of persons down to the consumer, which is not the fact. The General Company sells to consumers only, and the Government admits that it may properly do this and sell at uniform prices if it goes to the expense of establishing its own stores in every city, town and village in the United States and instructs its salesmen there as to the prices at which to sell, instead of employing, on commission, salesmen already established there and instructing *them* as to the prices at which to sell.

So there is nothing iniquitous in the intent that the General Company's product shall be sold to consumers only and at fixed prices.

As to the alleged "device to evade the law and to enable defendants to fix the resale prices of their lamps", see, further, pages 35 to 46, *supra*.

Finally, the Government calls attention to the fact that there are a large number of agents, this resulting in a large number of agency appointments. That is natural and inevitable in view of the fact that there is a demand to be filled for these lamps throughout the United States and there is no one distributor who has facilities for distribution throughout the country. If there *were* one distributor having such facilities there might be only one agency appointment. But, whether there are one or many agents, the legal situation is the same. No illegality can be found in the mere *number* of contracts (see pp. 47-52, *supra*).

As to the license to Westinghouse Company:

The Government admits in its Brief that this license is granted under basic, fundamental patents of the General Company which have been sustained by the Courts (pp. 5-6 and see pp. 55-58, *supra*).

The argument against the legality of this license, if it is to prevail, would be subversive of the most fundamental principles of the law relating to patents.

The Government states (p. 79) that a licensee "having purchased the right to *make and use* the machine, when made it was the absolute property of the maker, just the same as if he had purchased it after it had been manufactured; and it was not therefore within the patent monopoly. So a licensee paying royalty for the privilege *of manufacturing* under a patent is the absolute owner of the article made, and it likewise is not within the patent monopoly."

What, then, becomes of the statutory provision (Sec. 4884) that a patent shall grant the "exclusive right to make, use *and vend*" (which this Court has held to constitute separable and independent rights) or, as the statutory provision has been construed, the right to exclude others from making, from using *and from vending* the patented article?

What becomes of the shop rights which have been granted from the earliest days to these—namely, the right to make and to use in a certain shop, but not to sell?

The Government insists, however, that one who has a right to make and use a patented article necessarily has an unrestricted right to sell because the article, when made by him, is his own property. But the patent owner, in granting that license to make and use, has not parted with all of his right to exclude, but only with the right to exclude the licensee from making and using. He still has the right to exclude the licensee from vending. The right to exclude anyone from selling the article still exists and, as the Government says at page 76, "the right to exclude is the property created by statute; and it may be traded the same as a horse".

That was the basis for the decision of this Court in *Bement & Sons* v. *National Harrow Co.*, 186 U. S. 70, considered by us at pages 62-76, *supra*.

Later, however, some Courts sought to extend fragments of the opinion in the *Bement* case to cover restrictions (not in any way authorized by the decision in that case) on the patented article *after it has been sold* by the patentee or his licensee, that is, to authorize *resale* prices or restrictions on the use of the patented article, sold by the patent owner, only in connection with certain unpatented supplies. The *Bobbs-Merrill* case, the *Dick* case, the *Bauer et Cie.* case, the *Victor Talking Machine* case and the *Motion Pictures Patent* case, cited by the plaintiff at pages 67-73, involved restrictions of the kind last mentioned and the restrictions were held invalid; in so far as they dealt with sales prices, they dealt with *resale* prices.

The decision in the *Bement* case has never been questioned by the Court, but quite the contrary. It was referred to in *Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339, 345, but it was distinguished as not involving any question of resale prices; it was referred to, with apparent approval in *Dr. Miles Medical Co.* v. *Park*, 220 U. S. 373, 401; it was referred to with approval by Mr. Justice White in his dissenting

opinion in *Henry* v. *Dick*, 224 U. S. 1, 60; it was distinctly reaffirmed in the *Standard Sanitary* Case, 226 U. S. 20, 39-40; and its doctrine was applied in *U. S.* v. *United Shoe Machinery Co.*, 247 U. S. 32, 58.

The decisions of this Court, prior to the decision in the *Bement* case, lead logically to the decision there made.

In *Bloomer* v. *McQuewan*, 14 How. 539, the question was whether one who had constructed and used a machine under a license under a patent could be enjoined from continuing to use it during the term of an extension of that patent. The Court held (p. 553) that "the right to construct and use these planing machines, had been purchased and paid for without any limitation as to the time for which they could be used." The patent owner had completely given up his right of exclusion from whatever source that right might be derived—from the original patent or its extension. There is not, in that case, the slightest suggestion that the licensee who had purchased the right to construct and use could, because the machine which he made was his property, deal with it in any way he chose—sell it for instance; the whole question was whether he might continue to use it, as he had been licensed to do. It does not at all support the proposition stated in italics at the top of page 79 of the Government's brief.

The cases of *Adams* v. *Burke*, 17 Wall. 453, *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659, and *Morgan Envelope Co.* v. *Albany Paper Company*, 152 U. S. 425, involved only the situation resulting from the sale of a patented article by one who had a right, under the patent, to sell it.

None of these cases are inconsistent with the decision in the *Bement* case. They do not affect the proposition that a patent owner in granting a license to a manufacturer need not necessarily completely waive his rights of exclusion but may waive his right to exclude the licensee from making and using (and may, if he chooses, do so on terms as to the number of the articles to be made, place of use, etc.) and may waive his right to exclude the licensee from selling,

and may, also, do this on terms as to persons to whom sales may be made, localities in which sales may be made, selling price, etc. That restriction is a restriction upon, a limitation of, the waiver of the right to exclude—it is waived only to the extent of permitting the selling right to be used in a certain way.

Conclusion.

In view of the foregoing we submit that the appeal in this case should be dismissed and the decree of the District Court affirmed, the General Company having done nothing in contravention of the Anti-Trust laws either in its distribution of lamps through agents or in respect to the license granted to the Westinghouse Company.

Respectfully submitted,

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October, 1926.

Appendix.

Commodities consigned to agents as disclosed by decided cases, referred to at page 9, *supra*.

Wagons:

Milburg Mfg. Co. v. *Peak* (decision in 1896), 89 Tex. 209.
In re Galt (contract in 1901), 120 Fed. Rep. 64 (C. C. A., 7).
Owensboro Wagon Co. v. *Riggau* (decision in 1909), 151 N. Car. 303.
Franklin v. *Stoughton Wagon Co.* (contract in 1907), 168 Fed. Rep. 857 (C. C. A., 8).
In re Reynolds (decision in 1912), 203 Fed. Rep. 162 (Kentucky).
Mitchell Wagon Co. v. *Poole* (contract in 1914), 235 Fed. Rep. 817 (C. C. A., 6).

Woolens:

Ludvigh v. *American Woolen Co.*, (contract in 1902), 231 U. S. 522.
In re Marx Tailoring Co. (decision in 1912), 196 Fed. Rep. 243 (Alabama).

Farm Machinery:

John Deere Plow Co. v. *McDavid* (contract in 1903), 137 Fed. Rep. 802 (C. C. A., 8).
Wood Mowing Co. v. *Van Story* (decision in 1909), 171 Fed. Rep. 375 (C. C. A., 4).

Shoes:

Butler Bros. v. *U. S. Rubber Co.* (contract in 1903), 156 Fed. Rep. 1 (C. C. A., 8).
Bransford v. *Regal Shoe Co.* (contract in 1911), 237 Fed. Rep. 67 (C. C. A., 5).
In re Harris & Bacherig (decision in 1913), 214 Fed. Rep. 482 (Penn.).
Ellet-Kendall Shoe Co. v. *Martin* (contract in 1913), 222 Fed. Rep. 851 (C. C. A., 8).
McElwain-Barton Shoe Co. v. *Bassett* (contract in 1914), 231 Fed. Rep. 889 (C. C. A., 8).

Live Stock:

In re Taft (decision in 1904), 133 Fed. Rep. 511 (C. C. A., 6).
Hopkins v. *United States*, 171 U. S. 578.
Stafford v. *Wallace*, 258 U. S. 495.

Leather:

In re Flanders (decision in 1905), 134 Fed. Rep. 560 (C. C. A., 7).

Nuts:

Liebhardt v. *Wilson* (decision in 1906), 38 Colo. 1.

Pianos:

In re Smith & Nixon Piano Co. (decision in 1906), 149 Fed. Rep. 111 (C. C. A., 8).
McKinney v. *Grant* (decision in 1907), 76 Kan. 779.
In re Thomas (contract in 1914), 231 Fed. Rep. 513 (Georgia).

Buggies:

Keating Implement Co. v. *Favorite Carriage Co.* (decision in 1896), 12 Tex. Cir. App. 666.
Allen v. *Tyson-Jones Buggy Co.* (decision in 1897), 91 Tex. 22.
In re Columbus Buggy Co. (decision in 1906), 143 Fed. Rep. 859 (C. C. A., 8).

Yarns:

Kenston Cotton Mills v. *Kuhne* (decision in 1908), 113 N. Y. Supp. 779.

Machinery:

Sturtevant Co. v. *Dugan & Co.* (decision in 1907), 106 Md. 587.

Lumber:

Millang v. *Donahue* (decision in 1908), 110 N. Y. Supp. 56.
Acme Lumber Co. v. *Montgomery* (decision in 1908), 107 N. Y. Supp. 1074.

Typewriters:

L. C. Smith & Bros. v. *Alleman* (contract in 1909), 199 Fed. Rep. 1 (C. C. A., 3).

Flour:

Lasater v. *Purcell Etc. Co.* (decision in 1899), 22 Tex. Civ. App. 33.
In re Chalmers (contract in 1911), 206 Fed. Rep. 143 (Mont.).
In re Larkin & Metcalf (contract in 1911), 202 Fed. Rep. 572 (Dakota).

Fertilizer:

Federal Chemical Co. v. *Green* (decision in 1906), 30 Ky. L. Rep. 223.
In re Smith (contract in 1911), 192 Fed. Rep. 574 (Md.).
In re Handy (contract in 1912), 218 Fed. Rep. 956 (Mich.).

Rugs:

Costikyan v. *Sloane* (decision in 1909), 33 App. Cas. D. C. 420.

Tobacco:

Jones v. *Louisville Tobacco Warehouse Co.* (decision in 1909), 135 Ky. 824.

Furs:

Davidson v. *Adams Express Co.* (decision in 1909), 43 Pa. Super. Ct. 53.

Gasoline Engines:

Thomas v. *Field-Brundage Co.* (contract in 1911), 215 Fed. Rep. 891 (C. C. A., 8).

Paint:

In re Wright Dana Hardware (contract in 1911), 211 Fed. Rep. 908 (C. C. A., 2).
In re Wright Drug Co. (decision in 1916), 237 Fed. Rep. 411 (Ga.).

Steam Pumps:

In re Caldwell Mach. Co. (contract in 1912), 215 Fed. Rep. 428 (Wash.).

Fountain Pens:

In re Reeves (contract in 1912), 227 Fed. Rep. 711 (N. Y.).

China:

In re National Home Supply Co. (contract in 1913), 226 Fed. Rep. 840 (Mich.).

Coal:

In re Herbert & Co. (contract in 1914), 263 Fed. Rep. 351 (C. C. A., 2).

Silks:

Rath v. *Smith* (decision in 1914), 215 Fed. Rep. 82 (C. C. A., 3).

Automobiles:

In re Roellich (decision in 1914), 223 Fed. Rep. 687 (Oregon).
Cole Motor Car Co. v. *Hurst* (decision in 1916), 228 Fed. Rep. 280 C. C. A., 5).

Tires:

Healey v. *Boston-Batavia Co.* (contract in 1915), 268 Fed. Rep. 75 (Mass.).
In re King (contract in 1916), 262 Fed. Rep. 318 (C. C. A., 9).
Bartling Tire Co. v. *Coxe* (contract in 1921), 288 Fed. Rep. 314 (C. C. A., 5).

Rubber Heels:

In re Rosenbloom (decision in 1922), 280 Fed. Rep. 139 (Mich.).

Magazines:

Curtis Publishing Co. v. *Federal Tr. Comm.*, 260 U. S. 568.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1926. No. 113.

THE UNITED STATES OF AMERICA,

Appellant,

against

GENERAL ELECTRIC COMPANY, WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, and WESTINGHOUSE LAMP COMPANY,

Appellees.

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF OHIO, EASTERN DIVISION.

BRIEF FOR WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY and WESTINGHOUSE LAMP COMPANY.

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STATEMENT OF THE CASE.

The Issues.

This case was tried below on stipulated facts and resulted in a decree dismissing the Government's petition, from which it appeals. The opinion of the District Court is not yet reported, but is printed in the transcript at page 867.

The suit, under the Sherman Anti-Trust Act (Act of July 2, 1890, c. 647, 26 Stat. 209), is against the

General Electric Company, hereinafter called the "General Company", and Westinghouse Electric & Manufacturing Company and Westinghouse Lamp Company, hereinafter collectively called "Westinghouse", and relates to the incandescent electric lamp businesses of the appellees. By it the Government seeks to accomplish two purposes:

First, to have the agency contracts between the appellees and their respective agents declared unlawful, and to enjoin their further observance (Rec. p. 23).

Second, to have the existing license agreement between the General Company and Westinghouse, under which Westinghouse manufactures and sells lamps under a patent license from the General Company, declared an unlawful contract and combination in violation of the Sherman Act and null and void (Rec. p. 23), and to enjoin its further recognition or observance or the making of any other agreement of similar character (Rec. p. 24).

Westinghouse has an interest, equal to that of the General Company, in the first issue, since the agency plan is believed to be essential to the most economical and efficient conduct of its business. Great as this interest is, Westinghouse's interest in the second issue, is *vital*, since, if the Government's contention should prevail, Westinghouse would be forced to retire altogether from the manufacture of incandescent electric lamps and surrender its business therein to the General Company, the owner of the controlling patents thereon. *This case therefore differs from every anti-trust case that has preceded it in that the effect of the decree sought by the Government would be to cause one of two defendants now competing with each other to retire from the competitive field, leaving the other defendant in full possession thereof, a result just the reverse of that ordinarily sought in such cases.*

The License Agreement.

IMPORTANCE OF LAMP BUSINESS TO WESTINGHOUSE.

For upwards of forty years Westinghouse has been engaged in the business of manufacturing and selling electrical machinery and appliances of all kinds, including incandescent electric lamps (Rec. p. 100). Westinghouse and the General Company are the principal manufacturers of electrical goods and are in competition with each other in all branches of the electrical industry including the manufacture and sale of lamps. The total business done by Westinghouse, other than in lamps, is about two-thirds of the total business, other than in lamps, done by the General Company. (Rec. p. 100.) *The lamp business is an important and necessary part of the business of Westinghouse, without which its position as a manufacturer of a general line of electrical machinery and appliances of all kinds would be seriously impaired and its position in the general competitive field materially weakened.* The incandescent electric lamps manufactured by Westinghouse in 1921 amounted to about $10,800,000. (Rec. p. 91.) During the past forty years there have been great and successive improvements in the art, marked by successive changes in the kinds of lamps used. For the greater part of the period the lamp business has been controlled by patents, the patent position of the appellees shifting from time to time as new and improved lamps were invented. (Rec. pp. 101-103.)

THE DECREE IN THE FORMER GOVERNMENT SUIT, BROUGHT UNDER THE SAME STATUTE, EXPRESSLY RECOGNIZED THE LEGALITY OF A LICENSE AGREEMENT BINDING THE LICENSEE TO OBSERVE THE LICENSOR'S PRICES, TERMS AND CONDITIONS OF SALE.

In 1911 the United States brought an action in the Circuit Court of the United States for the Northern District of Ohio against these appellees and others engaged in

the manufacture and sale of incandescent electric lamps, claiming that certain arrangements then in existence to which the appellees were then parties constituted a combination and conspiracy in restraint of trade. (Rec. p. 797.) As a result of the decree in that case, all existing arrangements under which either appellee was utilizing patents of the other were terminated, but the right to grant and receive licenses upon terms and conditions to be fixed by the licensor was expressly recognized by paragraph Fourth of the decree, reading as follows (Rec. p. 844):

> "Fourth: That the General Electric Company and each and all of the said defendants mentioned in Clause Second hereof, together with the Westinghouse Electric and Manufacturing Company, Westinghouse Lamp Company, Aetna Electric Company, The Capital Electric Company, The Franklin Electric Manufacturing Company, Liberty Electrical Manufacturing Company, and Howard Gilmore and William Gilmore, doing business as the Gilmore Electric Company, all said defendants being collectively herein designated *the Lamp Manufacturing Defendants, are enjoined from fixing by combination, agreement, understanding or any other acts* between any two, more or all of them, or between them or any of them and others, *the price or prices at which any incandescent electric lamp* or lamps of any pattern, character, type or description, whether made or sold under letters patent, license or otherwise, *shall be sold or dealt in, either at wholesale or retail; provided that any of the defendants lawfully owning patents may grant to another defendant or to others, or may receive, appropriate manufacturing licenses under such patents, or under any patents lawfully owned by any of the defendants or others, upon terms and conditions fixed only by the licensors;* provided further, that any such licensor is hereby enjoined and prohibited from requiring or imposing upon the licensee the fixing of a resale price to be observed *by the licensee's vendees;* and the purchasers of such lamps from either the licensor or from the licensee or from the vendees of either the licensor or

licensee, whether at wholesale or retail, shall not be in any manner restricted as to the price at which such lamps shall be sold to the public or to any dealer or consumer." (Italics ours.)

CIRCUMSTANCES UNDER WHICH LICENSE AGREEMENT WAS EXECUTED.

At the time that this decree was entered, incandescent lamps of four kinds were being used, the carbon filament lamp, the metallized filament lamp, the tantalum filament lamp, and the tungsten filament lamp. (Rec. pp. 88, 89.) The General Company then owned patents covering metallized filament and tantalum filament lamps, each greatly superior to the ordinary carbon lamp. (Rec. p. 103.) It also owned the controlling patent rights on tungsten filament lamps for which patents had then been applied and have since been issued and to which this case particularly relates. (Rec. p. 104). This lamp is superior to all other lamps since it consumes only about one-third of the current consumed by the ordinary carbon filament lamp and less than one-half of that consumed by the metallized or tantalum filament lamps. (Rec. p. 89.) By reason of this superiority it has now supplanted all other kinds of lamps so that at the present time about 97½% of all incandescent electric lamps in use are tungsten filament lamps embodying the inventions covered by patents then and now held by the General Company. (Rec. p. 90.) The ownership, validity and controlling character of the patents of the General Company are not in issue in this case. (Rec. p. 90.) The patent position of the General Company with relation to the tungsten lamp is thus described in the stipulation (Rec. p. 104):

> "*At the time of the aforesaid decree the General Electric Company was the owner of the patent rights relating to the tungsten filament lamp,* upon which applications had then been filed and under which the above mentioned Just & Hanaman patent No. 1018502 and Coolidge patent No. 1082933 were sub-

sequently issued. *Because of the superiority of the tungsten filament over the carbon filament, the exclusive right to make, use and vend lamps manufactured with tungsten filaments under the aforesaid patents, if valid and lawfully acquired by the General Electric Company, and of the scope indicated by their claims, vested in their owner, the General Electric Company, what has since become a practical monopoly of the manufacture and sale of incandescent electric lamps."*

In this situation Westinghouse entered into negotiations with the General Company and obtained from it a non-exclusive license to manufacture and sell lamps under the patents of the General Company, as set forth in the license agreement of March 1, 1912 attached to the stipulation as Exhibit A. (Rec. p. 104.) At the time that this contract was executed, Westinghouse owned no controlling lamp patents. In these negotiations Westinghouse acted in entire good faith, dealt with the General Company at arm's length, and secured the most favorable terms that it was able to negotiate after protracted discussions covering a period of many months. (Rec. p. 105.)

TERMS, CONDITIONS AND EFFECT OF LICENSE AGREEMENT.

By the license agreement the General Company granted to Westinghouse a non-exclusive license to manufacture and sell (*a*) carbon filament lamps, (*b*) metallized filament lamps, (*c*) tantalum filament lamps and (*d*) tungsten filament lamps under the existing patents of the General Company and improvements thereon. (Rec. p. 115-16). The license terminates upon the expiration of patents in effect or actually applied for at the date of the license, subject to the right of the licensee to terminate on two years' notice. (Rec. p. 126). No royalties were exacted, or restrictions imposed, by the licensor in respect of carbon filament lamps. In respect of the other three kinds of lamps, covered by patents of the General Com-

pany, Westinghouse, in addition to the payment of royalties, agreed to observe the prices, terms and conditions of sale fixed from time to time and followed by the General Company in making its sales, *but only on the lamps covered by the General Company's patents and for the duration thereof.* (Rec. pp. 117-121). Since, as already stated, the tungsten lamp, because of its superiority, has practically supplanted all other kinds of lamps, the conditions imposed are now important only in relation to such lamps. It not only appears from the stipulation that, by reason of its patent position, the General Company at the time the agreement was executed was and now is invested with a practical monopoly of the manufacture and sale of incandescent electric lamps, but *it is also expressly stated in the Government's brief that through its patent control the General Company "can control one hundred per cent. of the electric lamp business of the United States."* (Government's Brief p. 7.) *The effect of the license, therefore, was to admit Westinghouse to the manufacture and sale of lamps from which it and all others might be lawfully excluded by the General Company.*

It is said that by the agreement Westinghouse is likewise bound to use the agency plan followed by the General Company. The agreement does not so provide. (Rec. p. 121.) The licensee's obligation is to observe the prices, terms and conditions of sale of the General Company. Sale through agents is a *method* of distribution, and not a price, term or condition. It is true, as indicated by the correspondence with the Attorney General, that both parties had at the time in contemplation the distribution of a portion of their lamps through agents (Rec. pp. 849-864), but it does not follow, as suggested by the Government, that either or both were bound to do so. The agreement was drawn with care and sets forth explicitly the obligations of the licensee. The very absence from the agreement of any covenant to use, even in part, a method of distribution then in contemplation negatives any presumption that such obligation is to be implied. It is

our contention that the contract does not bind Westinghouse to use the agency plan, but that it did so because it believed it to be good business policy and such is the effect of the stipulation (Rec. pp. 108-10).

The most that the Government contends is that Westinghouse agreed to observe the same methods of sale and distribution as well as the same terms and prices as the licensor. (Government's Brief p. 64.) The agreement does not so provide either expressly or by implication. Even if so construed, it would not on that account be unlawful, but would be merely the imposition of a reasonable condition for the protection of the patentee's own business in the article for which it held the exclusive right to manufacture and sell.

The license agreement also contained the grant of a non-exclusive license from Westinghouse to the General Company under patents then owned or acquired on improvements on carbon filament, metallized filament, tantalum filament or tungsten filament lamps, to be effective during the life of the agreement (Rec. p. 117), and both parties agreed to exchange technical and manufacturing information relating to the manufacture of lamps under the patents covered by the contract. (Rec. p. 123). In the petition these provisions, together with the General Company's license to Westinghouse, are attacked as affecting a consolidation of patents and an extension of the life and scope of the General Company's patent monopoly. This last charge has apparently been abandoned by the Government in this Court (Government Brief p. 64) since it is not among the grounds urged in support of the alleged invalidity of the license agreement. It was always clearly untenable.

At the time the agreement was executed, Westinghouse had no patents of consequence, if any. The agreement was not one between the owners of competing patents. All licenses granted were non-exclusive. If Westinghouse became the owner of any patented improvements during the life of the General Company's patents they would be useless without the use of the basic patents

as well, and, therefore, valueless to Westinghouse except for the main license contained in the agreement. On the other hand, it was obviously necessary for the protection of the licensor that it have the same right to use Westinghouse improvements in connection with the licensor's patents that its licensee had. Otherwise, by the use of the licensor's basic patents plus the licensee's patented improvements, the licensee might put the licensor completely out of business.

The General Company has also from time to time granted licenses to other licensees (now thirteen in number), in addition to the license granted to Westinghouse, to manufacture and sell lamps under its patents. (Rec. p. 91.)

The Agency Plan.

Each of the appellees sells its lamps in part through its own salaried employees and in part through agents, and distributes its lamps to consumers in part from its own factories, sales offices and branch sales offices and in part from its stocks in the hands of such agents. (Rec. p. 92.) In either case, the price to the purchaser is that fixed by the General Company. (Rec. p. 121.) The Government apparently does not question the right of either appellee to sell and/or distribute lamps direct to the consumer through its own salaried employees, but attacks such sale and distribution through agents as a violation of law.

Of the so-called large lamps sold (constituting in the case of the General Company over 80% in value of its total lamp business and in the case of Westinghouse about 86% in value of its total lamp business) about 59% of the General Company's sales are made by the Company itself or under contracts executed by it, and 41% through sales by agents, while in the case of Westinghouse about 66% of its sales are made by the Company itself or under contracts executed by it and 34% through agents. Of the

sales made by direct contract 37% of the total sales of the General Company and 30% of the total sales of Westinghouse are made under contracts usually negotiated by its agents but executed by the Company, deliveries customarily being made from stocks in agents' hands, while 22% of the total sales in the case of the General Company and 36% in the case of Westinghouse are made under contracts negotiated by the Company's salaried employees and supplied direct from the Company's factories or warehouses. It is intimated on page 8 of the Government's brief that these sales, negotiated by agents, may be regarded as made under agency contracts. The Government has apparently overlooked the fact that all such contracts, although customarily negotiated through agents, are actually executed by the manufacturer's own salaried officers and are not binding until so executed. (Rec. pp. 92-93.)

For large lamps there are two general classes of agents known respectively as B agents and A agents. The manufacturer appoints as its B agents persons engaged in the wholesale distribution of merchandise located in different parts of the United States. These B agents recommend to their respective manufacturers persons engaged in the retail distribution of merchandise within the districts wherein the B agents do business. Of the persons so recommended the manufacturer appoints as its agents those that it deems acceptable. The manufacturer also in some instances appoints similar concerns as A agents without any recommendation by a B agent. (Rec. p. 95.) Each of the several classes and sub-classes of agents described in the stipulation are appointed by the manufacturer itself, each distributes stocks of lamps consigned to it under the terms of written contracts, and in accordance with instructions received from the manufacturer. (Rec. pp. 95-98.) The agency contracts and instructions used by both appellees are substantially the same in all their material terms. (Rec. p. 94.) To the B agents thus appointed the manufacturer consigns lamps to be held in stock by such agents,

from which stock such agents supply consumers and also supply such A agents as they are specifically authorized by the manufacturer to supply with lamps for sale by such A agents to consumers. (Rec. p. 95.) In some instances A agents also receive consignments of lamps direct from the manufacturer. (Rec. p. 96.) No agent is allowed to distribute lamps to another agent without written authority from the manufacturer so to do. (Rec. p. 96.)

Title to the lamps in the possession of either class of agents remains at all times in the manufacturer, which assumes the risk of loss by fire and flood, carries the insurance and pays the taxes thereon *and may at any time repossess itself of the lamps in the possession of an agent.* (Rec. p. 106). The Government's brief emphasizes this last provision (Government's Brief pp. 17-19) as in some way discrediting the genuineness of the agency plan. It is submitted, however, that the right of the manufacturer to repossess itself of lamps in the possession of an agent—a right frequently availed of (Rec. p. 107)—is, of itself, conclusive proof that the agency plan is real and that the relationship between the manufacturer and the agent is the relationship between principal and agent, not the relationship between buyer and seller. Agents under the plan are not responsible for the value of the lamps in their possession until sold except for those which may be broken or lost while in their custody, nor are they chargeable with any decline in price, but are *del credere* agents as to lamps actually sold. (Rec. p. 106.) The suggestion in the Government's brief (Government's Brief pp. 34-35) that the agents must pay for all lamps shipped to them, whether or not sold by the agents, is misleading. Counsel for the Government have overlooked the fact that the agency contracts are made for terms of one year and that upon the expiration or other termination of the agency the agent has the right—the obligation—to return the unsold lamps. (Rec. pp. 229, 240, 375, 383.)

It will thus be observed that each of the appellees sells all of its lamps *direct* to the consumer, either

through its own salaried forces or its agents. Prices, terms and conditions of sale of the General Company's lamps are, of course, fixed by it, and the license agreement requires Westinghouse to observe the same prices, terms and conditions of sale. (Rec. p. 121.) *No resale prices are fixed either by the license agreement, the agency contracts, the purchase contracts made with those buying lamps, or in any other manner.* The plan itself, together with the fact that the appellees expected to appoint as their respective agents persons to whom they had previously sold as merchants and whose resale prices they were enjoined from fixing, was fully outlined to the Attorney General in 1912, has been followed ever since, and, as late as 1920 was found unobjectionable by the Federal Trade Commission (Record pp. 849-865).

So far as the license agreement is concerned, Westinghouse could sell its lamps entirely through its own salaried employees *and does sell a substantially greater proportion thereof by this method than does the General Company* (Rec. p. 93), or it could sell through the establishment of depots or stores for retail distribution of lamps, by mail order, or in any other manner that it sees fit, so long as prices, terms and conditions of sale to the purchaser are the same as those of the General Company. It is self-evident upon its face, however, that any such other method of distribution of lamps sold to consumers in small quantities would be more expensive and less effective than through sales and distribution by means of the agency plan above described. It appears from the stipulation that under the agency plan the rate of losses through bad accounts is less than before its adoption (Rec. p. 106); that the percentage of the purchasing consumer's dollar expended on distribution is materially less than the percentage of the purchasing consumer's dollar expended on distribution of other merchandise through sales to jobbers and dealers (Rec. p. 107); that through agents' reports the manufacturers are able to

regulate their purchases of raw materials, their factory labor and output to consumers' demand (Rec. p. 107); that they are further able to shift lamps from the slow moving stocks in the hands of one agent to the hands of other agents in other localities where such stocks are in demand (nearly 2,500,000 lamps being thus transferred in the year 1923 by the General Company and about 500,000 by Westinghouse) (Rec. p. 107); and to adjust the types of lamps held on consignment by the various agents to the voltage requirements of the lighting circuits in their vicinity, to the advantage of the consumer. (Rec. p. 107.) It is plain, therefore, that a company using the agency plan of distribution would have a decided advantage over a manufacturer undertaking to distribute in some other manner. While Westinghouse was not required by its license agreement to adopt the agency plan, it was believed by Westinghouse at the time of its adoption of the agency plan, and it is still believed by it, that so long as the General Company used the agency plan Westinghouse could not conduct a commercially successful lamp business or adequately serve the public by sales of such lamps through salaried employees alone, and that its interest in the development of a commercially successful lamp business and also the interests of the public generally would be best served, and could only be adequately served, by the employment of agents by it in addition to its salaried employees. (Rec. p. 109.)

At the time the license agreement was executed the General Company had in contemplation the adoption of an agency plan of distribution as above described. It therefore obligated Westinghouse, in the license granted to it, not to allow its agents, if it had any, greater compensation than that allowed by the licensor, the General Company, to its agents. (Rec. p. 122.) This stipulation was manifestly necessary in order to protect the General Company in its own rights as patentee of the lamps sold and to prevent Westinghouse from interfering with the legitimate

prosecution of the General Company's lamp business through offering greater inducements to agents than were offered by the owner of the patents itself. As a matter of course, Westinghouse could not hope to obtain the services of vigorous and reliable agents for less compensation than that paid by the General Company to its agents of similar class.

For the foregoing reasons, therefore, Westinghouse adopted as *a part* of its sales program an agency plan similar to that adopted by the General Company, and allowed the agents appointed by it the same compensation allowed by the General Company to its agents of similar class. (Rec. p. 110.)

From the standpoint of the consumer, the prices of lamps are as low or lower than they ever have been, while the lamps themselves have been materially improved and are of increased usefulness and value to the consumer. When it is remembered that prices of substantially all other commodities are now largely in advance of those before the war, the fact that the prices of lamps are now as low or lower than ever before and are of improved quality and usefulness, clearly indicates that the public has not been harmed through the development of lamp manufacture and distribution either under the license agreement or under the methods of distribution used by the appellees. On the contrary, whether or not it be cause and effect, the consumer is materially better off now as to price, quality and usefulness than ever before since the introduction of the incandescent electric lamp.

SUMMARY OF ARGUMENT.

I. The agency plan used by the appellees is lawful.

II. The license agreement between the General Company and Westinghouse is not a contract or combination in restraint of trade.

1. Grounds upon which attacked.

2. The agreement is concededly valid within the rule declared by this Court in *Bement* v. *National Harrow Company*.

3. The *Bement* case has never been overruled, and the rule therein declared in respect of price and sales restrictions imposed upon the licensee under a patent is still the law as declared in the opinions of this Court.

4. The licensee's covenant to observe the licensor's prices, terms and conditions of sale is neither within the letter nor the purpose of the Sherman Act.

5. The license agreement does not require Westinghouse to use the agency plan.

6. Even if the license agreement were to be construed as requiring Westinghouse to use the same methods of sale and distribution employed by the General Company (and so to use the agency plan if and so long as the General Company uses the agency plan as a method of sale and distribution) the license agreement would not on that account be a contract or combination in restraint of trade.

(*a*) Such a covenant would be valid.

(*b*) Even if such a covenant be invalid, the license agreement as a whole should not be held to be null and void on that account.

7. The limited restrictions upon the licensor's own prices and conditions of sale are valid.

8. The license agreement has not resulted in a consolidation of patents or in an enlargement of the patent monopoly.

9. Considered in the light of its purpose and effect, the license agreement removes, instead of creates, restraints of trade and is not in violation of the Anti-Trust Act.

ARGUMENT.

I.

THE AGENCY PLAN USED BY THE APPELLEES IS LAWFUL.

The agency plan is more completely set forth and discussed in the brief of the General Company. The questions of fact and law applicable are the same with respect to both the General Company and Westinghouse and there is no occasion for extending the length of this brief by a duplication of the arguments contained in that of the General Company.

As pointed out in the brief of the General Company, all the attributes of agency exist and the persons appointed to act as agents under the plan have been repeatedly held by the courts to be agents in fact and in law.

The Government does not contend that the appellees could not sell all of their lamps direct to the consumer through their own salaried employees and supply the consumer direct from their factories and warehouses, by mail order, or from lamp depots or stores established throughout the country. Its brief concedes such right. (Brief p. 56.) In any event, such right clearly exists under the authorities cited in the General Company's brief. This being so, the Government is undertaking to draw a distinction between distribution through salaried employees and distribution through agents which does not exist in law. Whether the person through whom sales and distribution of a manufacturer's goods are made is a salaried employee, an agent working on commission devoting all of his time to the business of his principal, or an agent working on commission who devotes only a part of his time to the business of his principal and sells other forms of merchandise which he himself owns, is wholly immaterial in a determination of the rights and powers of such manufacturer or of the rela-

tion between him and the public to whom he sells. In each case, the goods are the manufacturer's goods, the contracts are the manufacturer's contracts, the distribution is direct to the public, and the person through whom such sales and distribution are made acts, not on his own account, but solely for the manufacturer. *The fixing of prices at which such agents shall sell for the manufacturer to the public is no more the fixing of a resale price than is the fixing of a price for sales to the public by a salaried employee for the same manufacturer.*

Neither does the fact that as to a part of the business the lamps flow first to a B agent, thence to an A agent, and from the latter to the general public in the same way in which goods marketed through jobbers and retailers flow first from the manufacturer to the jobber, thence to the retailer, and thence to the public, destroy the legality of the distribution as a distribution direct to consumer through persons chosen by the manufacturer to make such distribution for him at prices fixed by him, or convert the manufacturer's own price thus fixed into a resale price. It may be said that the result is the same as though the manufacturer sold to jobbers, who in turn sold to retailers, who in turn sold to the general public, all at resale prices attempted to be fixed by the manufacturer. *But so would it be if distribution was carried on exclusively through sales offices and branch sales offices by the salaried employees of the manufacturer.* There can be no fixing of a resale price unless there is a resale. *The mere fact that the agents may be jobbers or retailers of other merchandise does not make them in fact or in law jobbers and retailers of merchandise owned by the manufacturer and sold by them for him.* There is no obligation on the appellees to market throu[illegible] sales to jobbers and retailers as distinguished from sales through salaried employees or agents. If a manufacturer may sell all of his product direct to the consumer through his own salaried employees and at his own prices, as he clearly may, he may

lawfully sell a part thereof through agents at prices fixed by himself, or by his licensor. *The legality of the plan must be determined by the relation of the persons through whom such distribution is made to the goods thus distributed, and not by their relation to some other goods in which the appellees have no interest.* Since they are in fact and in law agents, there has been no resale and no resale price has been fixed.

The Government's argument resolves itself into two propositions: First, the agency plan is unlawful because the practical effect is the same as though resale prices were fixed. Second, it is unlawful because of the extent to which it is employed, resulting in a virtual control of prices by the manufacturer into the hands of the consumer. The Government does not assert that a single agency agreement of this description would be unlawful. Neither is it contended that the retention of price control by the manufacturer is unlawful provided accomplished through his own salaried employees in branch stores, but only if done through agents who are at the same time engaged in the business of merchandising other goods. These contentions are briefly but effectively answered by the District Court as follows: (Rec. p. 869).

> "Stated in other words, the argument comes to this: A man wants to get rich; he may not get rich by stealing; ergo, he may not get rich by honest toil if his motive is to accomplish that which he is forbidden to do by stealing."

As to its extent the practice is no more all embracing than that sustained by this Court in *Federal Trade Commission* v. *Curtis Publishing Company*, 260 U. S. 568 (1922).

II.

THE LICENSE AGREEMENT BETWEEN THE GENERAL COMPANY AND WESTINGHOUSE IS NOT A CONTRACT OR COMBINATION IN RESTRAINT OF TRADE.

1. Grounds upon which attacked.

The grounds upon which the license agreement is attacked are set forth in the first paragraph on page 64 of the Government's brief, as follows:

> "As shown in the statement of the case the Government insists that the license agreement between the General Electric Company and the Westinghouse Company is illegal, because it is agreed therein, first, that the licensor shall fix the prices at which the lamps shall be sold; second, that the licensee will observe the sales system used by the licensor; and third, that the licensor will itself observe the prices which it fixes."

As previously stated, appellees contend that the license agreement does not require the licensee to use the sales system of the licensor, upon the existence of which requirement the second ground of attack rests. Whether so required or not, however, the license agreement is not in violation of the Anti-Trust Act.

2. The agreement is concededly valid within the rule declared by this Court in Bement v. National Harrow Company.

The covenant to observe the licensor's prices, terms and conditions of sale is concededly valid under the authority of *Bement* v. *National Harrow Company*, 186 U. S. 70 (1902). The Government does not expressly concede that the *Bement* case likewise supports the other covenants of the present agreement which are complained of. It virtu-

ally concedes this, however, since its whole argument is based upon the assumption either that the *Bement* case has been overruled, or if not, that it was wrongly decided.

3. The Bement case has never been overruled, and the rule therein declared in respect of price and sales restrictions imposed upon the licensee under a patent is still the law as declared in the opinions of this Court.

The only question before the Court in the *Bement* case was the validity of certain restrictions in the patent license, including an agreement to sell only at prices fixed by the licensor. The decision of this question was therefore necessary to the decision of the case, and is in no sense *obiter*. The Government's main contention is that the *Bement* case has since been overruled. The Court below held otherwise. (Rec. p. 870.)

A review of the Government's brief in this Court and of the cases therein cited confirms the correctness of the conclusion reached by the learned District Judge.

On page 66 of the Government's brief it is said that this Court in the *Bement* case "based its conclusion almost entirely upon the authority of *Heaton-Peninsular Button-Fastener Company* v. *Eureka Specialty Company*, 77 Fed. 288" (1896), whose principles are said to have been later overthrown by this Court. The opinion in the *Bement* case indicates that this Court did not attach the importance to the *Button-Fastener* case ascribed to it by the Government. It is but one of several cases cited dealing with the general nature of rights acquired by a patentee. A portion of the opinion in the *Button-Fastener* case was quoted by the Court. This portion of the opinion has never been challenged and has been referred to with approval by this Court ever since. *Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U. S. 24, 34 (1923). From the reference in the *Bement* case, however, it might well have been inferred by the Bar that the entire opinion in the *Button-Fastener* case was approved. Indeed, the later opinion of this Court in *Henry* v. *Dick Co.*, 224 U. S. 1, 28

(1911), would so indicate. Subsequently, however, both *Henry* v. *Dick* and the *Button-Fastener* cases were modified, *insofar as they were authority for price or use restrictions after the patented article had passed beyond the reach of the patent monopoly and had come into the ownership of a purchaser from either the owner of the patent or his licensee.* But it must be borne in mind that the *Bement* case is a case relating to price and other restrictions imposed upon persons licensed to manufacture and sell, that is to say, upon persons with whom the owner of the patent has shared his exclusive right to manufacture and sell to the general public. The *Button-Fastener* case and *Henry* v. *Dick Co.,* on the other hand, related to restrictions sought to be imposed upon purchasers to whom the owner of the patent or his licensees had sold. Subsequent cases modifying the rule of those cases applicable to *purchasers* therefore do not either overrule or in any respect modify the decision of the *Bement* case as applied to *licensees.* This is plainly indicated by the subsequent cases cited in the Government's brief.

Bauer v. *O'Donnell,* 229 U. S. 1 (1913), involved the fixing of resale prices on a patented article. Condemning such restrictions as in violation of the Anti-Trust Act, the Court said (pp. 16-17):

> "The real question is whether in the exclusive right secured by statute to 'vend' a patented article there is included the right, by notice, to dictate the price at which *subsequent* sales of the article may be made. * * * *The right to vend conferred by the patent law has been exercised,* and the added restriction is beyond the protection and purpose of the act. * * * " (Italics ours).

Here is clear recognition that the right to fix the original sales price is the exercise of a right within the patent monopoly, as distinguished from an effort to fix a resale price after the right to vend has once been exercised.

Straus v. *Victor Talking Machine Company,* 243 U. S. 490 (1917), likewise relates to an attempt to fix resale

prices by a so-called "license notice" after title had actually passed. There is nothing in this case to indicate any departure from the rule announced in the *Bement* case as applied to price restrictions upon persons licensed to manufacture and vend in the first instance.

Motion Picture Patents Company v. *Universal Film Manufacturing Company*, 243 U. S. 502 (1917), involved an attempted restriction upon the materials in connection with which patented machines should be used. In this case the Court expressly overruled the *Button-Fastener* case and *Henry* v. *Dick Co.* The opinion does not refer to the *Bement* case. However, reviewing and explaining *Bauer* v. *O'Donnell*, upon the authority of which the decision was largely based, the Court said (p. 516):

> "* * * But this court, when the question came before it in *Bauer* v. *O'Donnell*, 229 U. S. 1, rejecting plausible argument and adhering to the language of the statute from which all patent right is derived, refused to give such a construction to the act of Congress, and decided that *the owner of a patent is not authorized by either the letter or the purpose of the law to fix, by notice, the price at which a patented article must be sold after the first sale of it, declaring that the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.* The statutory authority to grant the exclusive right to 'use' a patented machine is not greater, indeed it is precisely the same, as the authority to grant the exclusive right to 'vend,' and, looking to that authority, for the reasons stated in this opinion we are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent and that it is not competent for the owner of a patent by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation but which are no part of the patented invention, or to send its machines forth into the

channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of such patent owner. * * *" (Italics ours.)

Here is an express recognition upon the part of the Court that price restrictions imposed upon persons licensed to manufacture and vend in the first instance stand on a different basis and are valid.

These are the decisions upon which the Government relies in contending that the *Bement* case has been overruled. It is clear that the decision in that case upholding the right of the owner of a patent to restrict the prices charged by the licensee has not been overruled or in any way called in question by these subsequent opinions, however much some of the broad language of the opinion in that case may have been qualified. Cases in the same series, not referred to by the Government, are *Standard Sanitary Manufacturing Co.* v. *United States*, 226 U. S. 20 (1912), *Boston Store of Chicago* v. *American Graphophone Company*, 246 U. S. 8 (1918) and *United States* v. *United Shoe Machinery Company*, 247 U. S. 32 (1918).

In *Standard Sanitary Manufacturing Company* v. *United States, supra,* this Court referred both to the *Bement* case and to *Henry* v. *Dick Co.*, and expressly reaffirmed the principle of the *Bement* case as applied to licensees (pp. 39-40).

The *Graphophone* case was another case of price restriction after sale. In this case Mr. Chief Justice White, after referring to the cases referred to in the Government's brief, said (p. 26):

> "In addition, through perhaps an abundance of precaution, we direct attention to the fact that nothing in the decided cases to which we have referred, having regard either to the application of the general law or of the patent law, deprives an inventor of any right coming within the patent monopoly, since the cases alone concerned whether a monopoly of the patent law can be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach."

In the still later case of *United States* v. *United Shoe Machinery Company, supra,* the Court said (p. 57):

> "Of course, there is restraint in a patent. Its strength is in the restraint, the right to exclude others from the use of the invention, absolutely *or on the terms the patentee chooses to impose.* This strength is the compensation which the law grants for the exercise of invention. Its exertion within the field covered by the patent law is not an offense against the Anti-Trust Act. In other circumstances it may be, as in *Standard Sanitary Mfg. Co.* v. *United States,* 226 U. S. 20, to which case that at bar has no resemblance." (Italics ours.)

Again, after reviewing the series of cases referred to by Mr. Chief Justice White in the *Graphophone* case, the Court said (p. 58):

> "These cases have received review and application in *Boston Store of Chicago* v. *American Graphophone Co.,* 246 U. S. 8. The principle of them was expressed to be that where an article has been sold it passes beyond the monopoly given by the patent and conditions cannot be imposed upon it. *Leases are not of this character; they do not convey the title. It is not contended, nor could it be, that in this case they are a disguise for something else, artifices to convey the machinery and yet keep it subject to the patent right and its exercise. It therefore follows that conditions may be imposed by them."* (Italics ours.)

The *Shoe Machinery* case, while not cited in that part of the Government's brief dealing with the *Bement* case, is cited on page 82 in another connection, where the somewhat remarkable statement is made that in the subsequent case of *United Shoe Machinery Company* v. *United States,* 258 U. S. 451 (1922), the principles set forth in the minority opinion in the earlier case became the subsequent opinion of the Court in the later case. The first *Shoe Machinery* case from which the foregoing quotation is taken arose under the Sherman Act, as does the present case. The sec-

ond *Shoe Machinery* case arose under the Clayton Act, forbidding tieing and other clauses in leases of articles, whether patented or unpatented. Throughout the opinion in the second case the Court recognizes the full force of its opinion in the first case, so far as any question under the Sherman Act is concerned, and bases its decision in the second case squarely upon the fact that it is being decided under an entirely different statute. Even if the tieing clauses reviewed in the second *Shoe Machinery* case had been held to be unlawful under the Sherman Act as well as under the Clayton Act, it would not affect the argument since there are no such tieing clauses in the license agreement, the restrictions imposed being merely those that have always been regarded as appropriate, if not absolutely necessary, for the protection of the patentee, when he sees fit to admit others to his patent monopoly by licenses to manufacture and sell, and there is nothing in the minority opinion in the first *Shoe Machinery* case to the contrary.

As construed by this Court, the *Bement* case has not been overruled as applied to the facts of that case, viz., price restrictions imposed upon a licensee. On the other hand, the distinction between restrictions applicable before, and those applicable after, the patented article has been first sold, is constantly reiterated in the subsequent decisions of the Court. It is plain that the decision in the *Bement* case has not only not been overruled but has at all times represented the view of this Court as to the right of the owner of a patent to impose reasonable restrictions upon his licensee to be operative until the patented article has actually been sold to the public.

4. The licensee's covenant to observe the licensor's prices, terms and conditions of sale is neither within the letter nor the purpose of the Sherman Act.

The contrary argument of the Government, except insofar as based upon the erroneous assumption that the *Bement* case has been overruled, is based entirely upon

the contention that unlimited right of disposition follows ownership, and that a person licensed to manufacture and sell is as completely relieved from restrictions as a purchaser of the patented article. No authority is cited in support of this proposition save those already reviewed, in each of which the distinction between the two cases is clearly set forth. If the Government's contention is sound, then it logically follows that there are only two respects in which the owner of a patent may protect himself against his own licensee, first, through the exaction of royalties, and second, by the imposition of a restriction upon the place of manufacture. It is at least intimated at pages 74 and 75 of the Government's brief that territorial restrictions as to place of sale may also be imposed upon the licensee. If, however, the licensee is the owner of the articles manufactured and such ownership carries with it, as in the case of a first purchaser, the right to sell free from any restrictions imposed by the owner of the patent, then it is plain that such a territorial restriction upon the right of sale would be as invalid as the price restriction involved in this case. If, on the other hand, such a restriction is valid, it is quite as much an interference with the asserted absolute right of disposition resulting from the ownership of the manufactured article as is the price restriction under review. As pointed out in the cases reviewed, the patent law confers upon the patentee "the exclusive right to make, use and vend" the thing invented. Under the Government's theory in this case, if the owner of a patent grants a license to manufacture but not to sell, but does not at the same time reserve the title in himself, the legal effect would be to confer upon the licensee the right to sell at any place and at his own prices, since the ownership of the goods is his and, under the Government's theory, ownership is the only test of the licensee's right. We had always assumed that the owner of a patent could grant to another the right to manufacture thereunder but re-

strict the sale of the articles manufactured to sales through the sales organization of the patent owner. If the Government's theory in this case is correct, however, such a restriction is unlawful. The manufacturing licensee, owning the goods, would be free from any restrictions as to their sale, whether as to price or otherwise. The vice of the argument is that it fails to recognize the extent of the patent monopoly created.

The very purpose of the patent laws is to create a monopoly in the patented article. *United States* v. *American Bell Telephone Company,* 167 U. S. 224 (1897). There is no obligation upon the owner to devote the patent to commercial use unless he chooses to do so. If he does, he may keep the field of manufacture and sale entirely to himself, or admit others to it. Since, if the owner keeps the field of manufacture and sale to himself he may control prices, terms, conditions and methods of sale, it follows that if he admits another to the field of manufacture and/or sale, otherwise exclusively his, he may condition such admission upon any agreements restricting the licensee which are imposed for the protection of the licensor's patent position and his business thereunder. To justify a decree under the Sherman Act the parties must have contracted, combined or conspired to restrain interstate commerce. Both in language and purpose that act presupposes two or more persons in competition with each other who have contracted, combined or conspired to put an end to such competition. As stated by the Circuit Court of Appeals of the Fifth Circuit in *Patterson* v. *United States,* 222 Fed. 599 (1915) (p. 620):

> "there can be no monopolizing in the legal and accurate sense of the word where there can be no common occupation. Where in the very nature of things there must be exclusion of all others but one, there can be no monopolizing."

This is equally true of a restraint of trade less in scope than a monopoly. There can be no common occupation in the field of patented articles because it is a field which belongs exclusively to the owner of the patent. A license agreement, even though accompanied by restrictive covenants, therefore, does not create that restraint of trade which is necessary to bring a given case within the Sherman Act but, on the contrary, creates a competition which, but for such license, would not exist.

The covenant to observe the same prices, terms and conditions of sale fixed by the General Company and followed by that Company in making its sales was obviously reasonably necessary for the licensor's protection. Such covenants are supported by every adjudicated case in which the question has arisen. *Bement* v. *National Harrow Company*, *supra*. *Standard Sanitary Manufacturing Company* v. *United States*, *supra*. *Rubber Tire Wheel Company* v. *Milwaukee Rubber Works Company*, 154 Fed. 358 (1907). *Indiana Manufacturing Company* v. *J. I. Case Threshing Machine Company*, 154 Fed. 365 (1907). Such right is also recognized by paragraph Fourth of the decree entered in the former case, set forth above in the summary statement (*supra*, page 4).

Unless the licensor may thus control the licensee's price he runs the risk of having his own business destroyed. A denial of such right, therefore, would have the inevitable tendency of discouraging the granting of licenses and thus discouraging the opening up of a patent monopoly to others with the resulting competition in service and sources of supply, if not in price. Furthermore, in this case royalties are based upon net sales, viz., net proceeds after payment of commissions, discounts, etc. The licensor, therefore, has a direct pecuniary interest in the prices, terms and conditions of sale followed by the licensee. The statement that the licensor, having granted the licensee the right to sell as well as to manufacture, had no legal interest in the licensee's sales prices, is therefore

incorrect. It is conceded by the Government that the licensor's right to regulate royalties is complete. Here the royalties reserved depend specifically upon the licensee's prices and regulation of price is but another way of regulating royalties.

The same rule necessarily applies to the licensee's obligation to use the licensor's form of purchase contract in sales made by the licensee. In fact, this obligation may be properly regarded as a part of the obligation to observe the licensor's terms and conditions of sale. It merely constitutes a reasonable assurance that the terms and conditions of sale will be those used by the licensor and avoids any possibility of dispute as to whether the licensee's purchase contracts are upon the same terms and conditions, and any possibility of conflicting judicial interpretations of the form of contract used by the licensee and licensor respectively.

5. The license agreement does not require Westinghouse to use the agency plan.

Neither expressly nor by implication does the license agreement require Westinghouse to use an agency plan of distribution for any part of its lamp business. It does require the licensee to maintain the licensor's "prices, terms and conditions of sale" as set forth in a certain Schedule B attached to the agreement, to sell only under the licensor's form of purchase contract set forth in said Schedule, to comply with the General Sales Rules contained in such Schedule, not to allow discounts greater than those set forth on the discount sheet of the Schedule, and in all respects to sell on terms and conditions no more favorable to the purchaser than those set forth in the Schedule. (Rec. p. 121.) The use of agents constitutes a *method* of sale and distribution, not a part of the terms and conditions thereof within the ordinary meaning of the words. *The licensor's "Contract for Purchase of Incan-*

descent Lamps" which the licensee expressly agreed to use, was not a form of contract between the manufacturer and its agents but between the manufacturer and a purchaser of lamps, whether such purchase was made through the manufacturer's salaried employees or its agents working on commission.

The contention that the license agreement required the use of the agency plan, is based chiefly upon the fact that the license refers to Schedule B, which is attached thereto, as containing the prices, terms and conditions of sale then in force by the General Company, and that this Schedule, in addition to containing forms of purchase contract, sales instruction, prices and discounts, also contains copies of the agency appointments then in use by the General Company and of the schedule of commissions or compensation allowed to agents. It was appropriate that all of the terms of the General Company's agency appointments be set out in the Schedule attached to the contract, so that if Westinghouse should adopt the agency plan for the conduct of any part of its business, it would be advised of the measure of its obligation to the General Company not to treat its agents better than those of the General Company were treated; but the inclusion of such papers in Schedule B imposed no implied obligation to use agents.

On its face the contract evidences the greatest care in its preparation. If it had been the purpose of the licensor to obligate the licensee to adopt the agency plan as to all or any fixed proportion of its business, the presumption is that such obligation would have been clearly stated.

The contract recites that the licensor proposes to appoint agents for the sale of a *portion* of its lamps. (Rec. p. 122.) What portion of its lamps is to be sold through agents and what portion through its own salaried employees, what classes of purchasers, if any, are to be served exclusively through one or the other, or whether all are to be served by either, as circumstances may require, is not set forth either in the body of the license agreement or in

Schedule B. If the license agreement be construed as requiring the licensee to employ an agency plan absolutely, or so long as the licensor employed such plan for a portion of its business, it is wholly incomplete in that it does not, directly or by implication, specify to what extent or as to what classes of customers or lamps it must employ such plan, or to what extent or as to what classes of customers and lamps it may sell through its own salaried employees, or in some manner other than through the use of agents. Surely if the agreement was intended to bind the licensee to the use of an agency plan it would have stipulated whether or not the use of such plan should be exclusive, and if not exclusive the extent to which it should be used. If the licensee may under the license sell a part of its lamps through its own salaried employees, and the license is silent as to the part or class of business to be so conducted, the licensee may, if it chooses, sell all of its lamps by such method or may, at its election, sell a portion thereof through its own salaried employees and a portion through agents.

Under the contemporaneous construction given to the contract by the parties the licensee was not bound to use the agency plan. The record is that neither the licensor nor the licensee have considered that the contract required the licensee to use the agency plan to any degree (Rec. p. 108); that throughout the life of the contract the licensee has sold annually large quantities of lamps through its own salaried employees, with the full knowledge of the licensor (Rec. p. 93); and that the licensee adopted the agency plan for the conduct of a portion of its sales and distribution only because it believed such plan to be in the best interest of itself and the public. (Rec. p. 109.)

6. Even if the license agreement were to be construed as requiring Westinghouse to use the same methods of sale and distribution employed by the General Company (and so to use the agency plan if and so long as the General Company uses the agency plan as a method of sale and

distribution) the license agreement would not on that account be a contract or combination in restraint of trade.

(*a*) Such a covenant would be valid.

Even if the license agreement in terms required Westinghouse to use the agency plan, the license agreement would not on that account be a contract or combination in restraint of trade. As hereinafter pointed out, such a requirement would be merely a reasonable restriction imposed upon the licensee for the protection of the patentee's own business in the article for which he held the exclusive right to manufacture and sell. However, the license agreement did not in terms require Westinghouse to use the agency plan. The most that can be contended for the license agreement is that it required Westinghouse to use the same methods of sale and distribution followed by the General Company and that therefore so long as the General Company used an agency plan in conducting any part of its business the licensee was bound to use a similar agency plan for some part of its business. Although the Government in its statement of the case (Government's Brief, p. 3) contends that the license agreement required Westinghouse to use the agency plan, in the argument (Government's Brief, p. 64) it only contends that the license agreement requires Westinghouse to use the sales system used by the licensor, whatever that may be. This latter interpretation of the license agreement could only be justified upon the theory that the use of the licensor's sales system was one of the "prices, terms and conditions of sale" described in Schedule B to the license agreement which Westinghouse agreed to follow. For the reasons already stated this would not be a correct interpretation of the contract.

Assuming, however, that Westinghouse is restricted under the agreement to the same method of sale and distribution followed by the General Company, or to the use of the same agency plan followed by the General Com-

pany, if Westinghouse adopts an agency plan, such restriction is not unlawful. Such condition, if imposed, is clearly related to the licensor's patent monopoly. It does not seek to control the patented article over which the licensor has been granted a complete monopoly after the patented article has passed beyond the reach of the patent monopoly, but only to control its sale and distribution prior thereto. It is not, therefore, within those cases in which attempts thus to control a patented article after it has passed beyond the legitimate field of patent monopoly have been condemned.

That such an agreement is appropriate and reasonably necessary for the protection of the licensor's own business in the patented article is plain. In addition to regulating the prices and terms on which the licensee may sell (cases *supra*), the licensor may lawfully limit the quantity to be manufactured (*Aspinwall Manufacturing Company* v. *Gill*, 32 Fed. 697, 1887), the territory within which sold (*Fowle* v. *Park*, 131 U. S. 88, 1889), the place of manufacture (*Providence Rubber Company* v. *Goodyear*, 9 Wall. 788, 1869) and the persons to whom sales may be made (*Providence Rubber Company* v. *Goodyear*, *supra*). Manifestly, a condition restricting the licensee to the methods of sale and distribution employed by the licensor is likewise valid. The only ground upon which it could be contended that such a restriction was unlawful would be that, if the licensee were privileged to adopt a sales method differing from that employed by the licensor, there might be a greater degree of competition between licensor and licensee, and the licensee might be able to sell a larger proportion of the patented article or at a lower price. But the public has no right to competition in a patented article over which the owner has a lawful monopoly until the article has passed beyond the patent control, and if the licensor may by direct agreement control the price and limit the licensee's sales as to amount, territory or pur-

chasers, he may require the licensee to use the same plan for sale and distribution followed by the licensor. Where the license is unrestricted as to territory and amount to be manufactured, some other restriction is clearly necessary for the protection of the licensor. The very ground upon which the counter-argument must rest shows that to leave the licensee unrestricted in these respects would be to permit him to interfere with the licensor's own business in the patented article and against that the licensor has a right to protect himself to any degree that he chooses so long as he does not undertake to control the price or use of the invention after it has passed beyond the protection of the patent monopoly.

In *Indiana Manufacturing Company* v. *J. I. Case Threshing Machine Company, supra,* the Circuit Court of Appeals of the Seventh Circuit upheld the right of the licensor to provide in the license agreement for "the control of prices and *methods*" of the licensee. The same Court in *Rubber Tire Wheel Company* v. *Milwaukee Rubber Works Company, supra,* sustained the validity of a system of license agreements, the effect of which was to pool the entire output and to provide for the supervision of the business of all licensees by commissioners appointed by the licensor.

In a separate concurring opinion in this case Judge Grosscup said (p. 364):

> "Now were the patentee the manufacturer, he would unquestionably have had the right to fix and maintain his own prices; and were the other parties to the contract manufacturers for the patentee, at a given figure for such manufacture, the patentee's right to fix and maintain the selling price would still remain; *nor could this be questioned were he to make the manufacturers his selling agents also.* * * * " (Italics ours).

The right to manufacture and the right to sell are completely severable rights. *Dorsey Revolving Harvester Com-*

pany v. *Bradley Manufacturing Company,* 12 Blatchf. 202, Fed. Cas. 4015 (1874), *Mitchell* v. *Hawley,* 16 Wall. 544 (1872), *Adams* v. *Burke,* 17 Wall. 453 (1873). The General Company might have granted to Westinghouse a license to manufacture and might have required all lamps manufactured by Westinghouse to be sold through the licensor. That is to say, in opening its patent monopoly to the use of Westinghouse there was no obligation upon the General Company to license Westinghouse both to manufacture and sell. Certainly if the license could have been limited to a license to manufacture only, requiring lamps manufactured to be sold through the General Company and its sales organization, it was within the right of the General Company to require Westinghouse to observe the same methods of sale followed by the licensor. Indeed this Court in the *Bement* case, *supra,* sustained a negative covenant against sales by a licensee through commission agents, thus sustaining a restriction on methods of sale, as well as on prices and terms.

However, even if the agency plan should be held unlawful and the General Company enjoined from using it, and even if it should be assumed that Westinghouse is restricted under the agreement (which appellees contend it is not) to the same method of sale and distribution followed by the General Company, the license agreement would not be unlawful. The General Company would then be compelled to employ some other method of sale and distribution and, even under this interpretation of the license agreement, the new method of sale and distribution would become a part of the terms and conditions of sale set out in Schedule B. In such a case Westinghouse would of course cease using the agency plan. The license agreement provides that said Schedule B may be changed by the General Company (Rec. p. 122). Even under this interpretation of the license agreement Westinghouse would no longer be required to use such plan. Indeed, it would have no right to do so. Conforming to the new method of sale and dis-

tribution used by the General Company would be compliance with the condition that the licensee use the same method of sale and distribution employed by the licensor.

(*b*) EVEN IF SUCH A COVENANT BE INVALID, THE LICENSE AGREEMENT AS A WHOLE SHOULD NOT BE HELD TO BE NULL AND VOID ON THAT ACCOUNT.

In no event should the license agreement as a whole be held to be null and void, even if any of its terms should be held to be unlawful. In such an event, having regard to the language and purpose of the Sherman Act, the court should simply enjoin further action in accordance with such unlawful terms, leaving the parties free, at their election, either to continue under the remaining covenants and conditions of the license agreement or to contest, in a suit between themselves, the question whether such remaining covenants and conditions are so inseparably bound up with the terms held to be unlawful that the license agreement as a whole becomes unenforceable. The legislative policy, as disclosed by the terms of the Sherman Act, is clearly to resort to restraint rather than dissolution, except where restraint alone is inadequate. Inasmuch as any illegality involved in purely administrative practices arising from restrictions imposed upon the licensee could be effectively eliminated, and the statute and the public interest completely vindicated, by a prohibition of the offending practices, the remedy required in such a case would be a decree enjoining the General Company or Westinghouse, or both, as the case might be, from continuing to carry out such unlawful condition. Having secured an injunction forbidding those acts which alone constitute violations of the Sherman Act, the Government would no longer be interested in the question whether, as between the General Company and Westinghouse, the remaining stipulations, covenants and conditions constituted separable stipulations, covenants and conditions which would continue to

be enforceable by the parties, or whether, by reason of the striking down of such provisions of the license agreement as might be held to be illegal in this case, such remaining stipulations, covenants and conditions might, in a suit between the parties, be adjudged to have fallen also because inseparably bound up with the provisions held to be illegal by this court.

7. The limited restrictions upon the licensor's own prices and conditions of sale are valid.

It is difficult to take seriously the contention that the license agreement is invalid because the licensor agrees in effect that, having limited prices at which the licensee may sell, it will not itself sell at lower prices or on more favorable terms without seasonable notice to the licensee. The licensor does not bind itself not to change its prices. It does not bind itself not to change its prices without consultation with the licensee. There is nothing in the nature of the fixing of subsequent prices by agreement. Under the contract the licensor is perfectly free to change its prices or terms of sale at will. All that it obligates itself to do is to notify the licensee of such proposed changes within the times specified in the contract before they become effective. Clearly there is no unreasonable restraint here. Good faith and fair dealing would require the observance of such practice without contract.

8. The license agreement has not resulted in a consolidation of patents or in an enlargement of the patent monopoly.

In addition to the grounds upon which the license agreement is attacked in this Court, the petition charged that it violated the Anti-Trust Act in the following respect (Record p. 21):

> "First, it consolidated the patent monopolies possessed by the defendants and enlarged in scope and extended in time the monopoly of manufactur-

ing lamps of a specific character possessed by each of defendants under patents owned by it alone."

This charge has not been renewed in the Government's brief in this court. It has apparently been abandoned. Abandoned or not, it was always untenable and we note it here only out of abundance of caution.

Any charge concerning the consolidation or enlargement in scope of the patent monopolies possessed by the respective appellees must, to be sustained, show that as a result of the license agreement, *one or both of the appellees was thereafter able to exclude, in some manner or to some extent not theretofore available, other members of the public from the manufacture, use or sale of patented lamps of the kind referred to in the license agreement.* This is not the case. The agreement was not one between the owners of competing patents. All licenses granted were non-exclusive. Westinghouse having received a license under the basic patents of the General Company was free to develop such patented improvements thereon as it was able to bring about. Without a license under the licensor's basic patents these improvements would be valueless in the hands of the licensee. On the other hand, unless the licensor should be admitted to the use of the licensee's improvements, the licensor might have found itself in the position of having brought about the destruction of its own business by permitting the licensee to use its basic patents without stipulating for the use of the licensee's subsequent improvements thereon, if any. The restrictions upon price, terms and conditions of sale apply only to lamps covered by the patents of the licensor and only so long as the patents then actually granted or applied for continued. Both the licensor and licensee were at liberty to manufacture and sell any other kinds of lamps made by any other process at any prices either might see fit to charge. Only as to lamps covered by the basic patents of the General Company was Westinghouse bound to pay royalties or to observe the General Company's prices, terms and conditions of sale. (Rec. pp. 117, 121.)

9. Considered in the light of its purpose and effect, the license agreement removes, instead of creates, restraints of trade and is not in violation of the Anti-Trust Act.

In considering the license agreement it must be borne in mind that, without it, Westinghouse would be entirely excluded from the manufacture and sale of incandescent lamps. The petition alleges (Rec. p. 4) that the General Company's ownership of basic Tungsten patents "vests in its owner a practical monopoly of the manufacture and sale of electric lamps." It appears from the stipulation that these patent rights were owned at the time that the license agreement was executed and that as a result thereof the General Company at the present time has a virtual monopoly of the lamp business except to the extent that it sees fit to waive its right to exclude others from such business (Rec. p. 104).

On page 7 of its brief the Government says:

> "Therefore the *General Electric Company* does control *through its patents* on Tungsten lamps and processes of manufacturing such lamps 86 per cent. and *can control one hundred per cent. of the electric-lamp business of the United States.*" (Italics ours).

That is to say, under the Government's own admissions, the General Company has a legal monopoly of the lamp business. By its license to Westinghouse it has freed trade in lamps from a part of the resulting lawful restraint. While the price restrictions forbid competition in price, the license creates a competition in service and an added source of supply. The price restrictions create no additional restraint beyond that lawfully resulting from the General Company's patent control. In no respect, therefore, has the license agreement created a restraint of trade. In important particulars it has removed existing restraints. Nor is that all. The General Company and Westinghouse are the principal manufacturers of electrical machinery and appliances within the United States. The

manufacture and sale of lamps is an important and essential part of the business of each. Without participation therein the business of Westinghouse as a manufacturer of a general line of electrical machinery and appliances of all kinds would be seriously impaired. Its competitive situation in the industry would therefore be diminished to the injury of the public as well as of itself. Its incandescent light business in 1921 amounted to about $10,000,000. (Rec. p. 91). By the license agreement restraints otherwise imposed upon the sale of electric lamps by Westinghouse and upon the purchase of such lamps from Westinghouse by the public have been removed. Upon the expiration of the patents price restrictions cease and the appellees are in a position each to charge what it pleases. As a result of the license the expiration of the patents will find a large company already engaged in the manufacture of lamps and having the necessary machinery and technical skill so to do. Without such a license competitive effort at the expiration of the patents would necessarily be retarded by the time required for the acquisition of plants and of the necessary technical skill and knowledge. It may, we think, be fairly assumed that, if the restrictions contained in this license agreement are invalid, but little sharing of the patent monopoly in patented articles may be expected, especially at the hands of large manufacturing concerns. If the owner of a patent may not protect itself against the destruction of its own business by conditioning its licenses upon the observance of prices and terms of sale not lower than its own, it would seem to be self-evident that but few licenses would be granted. Restrictions which, when so imposed, create an inducement for the granting of such licenses and for the creation of competition in service, and of additional sources of supply, cannot be regarded as contracts in restraint of trade. Their effect is just the reverse.

IT IS RESPECTFULLY SUBMITTED THAT THE DECREE OF THE DISTRICT COURT SHOULD BE IN ALL RESPECTS AFFIRMED.

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SUPREME COURT OF THE UNITED STATES.

No. 113.—October Term, 1926.

The United States of America, Appellant, *vs.* General Electric Company, Westinghouse Electric and Manufacturing Company, and Westinghouse Lamp Company.	On Appeal from the District Court for the United States for the Northern District of Ohio.

[November 23, 1926.]

Mr. Chief Justice Taft delivered the opinion of the Court.

This is a bill in equity brought by the United States in the District Court for the Northern District of Ohio to enjoin the General Electric Company, the Westinghouse Electric and Manufacturing Company, and the Westinghouse Lamp Company from further violation of the Anti-Trust Act of July 2, 1890. 26 Stat. 209, c. 647. The bill made two charges, one that the General Electric Company in its business of making and selling incandescent electric lights had devised and was carrying out a plan for their distribution throughout the United States by a number of so-called agents, exceeding 21,000, to restrain interstate trade in such lamps and to exercise a monopoly of the sale thereof; and, second, that it was achieving the same illegal purpose through a contract of license with the defendants, the Westinghouse Electric and Manufacturing Company and the Westinghouse Lamp Company. As the Westinghouse Lamp Company is a corporation all of whose stock is owned by the Westinghouse Electric and Manufacturing Company, and is but its selling agent, we may treat the two as one, and reference hereafter will be only to the defendants the General Electric Company, which we shall call the Electric Company, and the Westinghouse Company.

The Government alleged that the system of distribution adopted was merely a device to enable the Electric Company to fix the re-

sale prices of lamps in the hands of purchasers, that the so-called agents were in fact wholesale and retail merchants, and the lamps passed through the ordinary channels of commerce in the ordinary way, and that the restraint was the same and just as unlawful as if the so-called agents were avowed purchasers handling the lamps under resale price agreements. The Electric Company answered that its distributors were bona fide agents, that it had the legal right to market its lamps and pass them directly to the consumer by such agents, and at prices and by a system prescribed by it and agreed upon between it and its agents, there being no limitation sought as to resale prices upon those who purchased from such agents.

The second question in the case involves the validity of a license granted March 1, 1912, by the Electric Company to the Westinghouse Company to make, use and sell lamps under the patents owned by the former. It was charged that the license in effect provided that the Westinghouse Company would follow prices and terms of sales from time to time fixed by the Electric Company and observed by it, and that the Westinghouse Company would, with regard to lamps manufactured by it under the license, adopt and maintain the same conditions of sale as observed by the Electric Company in the distribution of lamps manufactured by it.

The District Court upon a full hearing dismissed the bill for want of equity and this is an appeal under section 2 of the Act of February 11, 1903, known as the Expediting Act. (32 Stat. 823, c. 544, sec. 2.)

There had been a prior litigation between the United States and the three defendants and thirty-two other corporations, in which the Government sued to dissolve an illegal combination in restraint of interstate commerce in electric lamps, in violation of the Anti-Trust Act, and to enjoin its further violation. A consent decree was entered in that cause by which the combination was dissolved, the subsidiary corporations surrendered their charters and their properties were taken over by the General Electric Company. The defendants were all enjoined from fixing resale prices for purchasers, except that the owner of the patents were permitted to fix the prices at which a licensee should sell lamps manufactured by it under the patent. After the decree was entered, a new sales plan, which was the one here complained of, was submitted to the Attorney General. The Attorney General declined to express an

opinion as to its legality. The plan was adopted and has been in operation since 1912.

The Government insists that these circumstances tend to support the Government's view that the new plan was a mere evasion of the restrictions of the decree and was intended to carry out the same evil result that had been condemned in the prior litigation. There is really no conflict of testimony in the sense of a variation as to the facts but only a difference as to the inference to be drawn therefrom. The evidence is all included in a stipulation as to certain facts, as to what certain witnesses for the defendants would testify, and as to the written contracts of license and agency made by the General Electric Company and the Westinghouse Company.

The General Electric Company is the owner of three patents—one of 1912 to Just & Hanaman, the basis patent for the use of Tungsten filaments in the manufacture of electric lamps; the Coolidge patent of 1913 covering a process of manufacturing tungsten filaments by which their tensile strength and endurance is greatly increased; and, third, the Langmuir patent of 1916, which is for the use of gas in the bulb by which the intensity of the light is substantially heightened. These three patents cover completely the making of the modern electric lights with the tungsten filaments and secure to the General Electric Company the monopoly of their making, using and vending.

The total business in electric lights for the year 1921 was $68,300,000, and the relative percentages of business done by the companies were, General Electric 69 per cent., Westinghouse, 16 per cent., other licensees, 8 per cent. and manufacturers not licensed, 7 per cent. The plan of distribution by the Electric Company divides the trade into three classes. The first class is that of sales to large consumers readily reached by the General Electric Company, negotiated by its own salaried employees and the deliveries made from its own factories and warehouses. The second class is of sales to large consumers under contracts with the General Electric Company, negotiated by agents, the deliveries being made from stock in the custody of the agents; and the third is of the sales to general consumers by agents under similar contracts. The agents under the second class are called B agents, and the agents under the third class are called A agents. Each B agent is appointed by the General Electric Company by the execution and delivery of a contract for the appointment, which lasts

a year from a stated date, unless sooner terminated. It provides that the company is to maintain on consignment in the custody of the agent a stock of lamps, the sizes, types, classes and quantity of which and the length of time which they are to remain in stock to be determined by the company. The lamps consigned to the agents are to be kept in their respective places of business where they may be readily inspected and identified by the company. The consigned stock or any part of it is to be returned to the company as it may direct. The agent is to keep account books and records giving the complete information as to his dealings for the inspection of the company. All of the lamps in such consigned stock are to be and remain the property of the company until the lamps are sold, and the proceeds of all lamps are to be held in trust for the benefit and for the account of the company until fully accounted for. The B agent is authorized to deal with the lamps on consignment with him in three ways—first to distribute the lamps to those of the company's A agents as directed by the company; second, to sell lamps from the stock to any consumer to the extent of his requirements for immediate delivery at prices specified by the company; third, to deliver lamps from the stock to any purchaser under written contract with the company to whom the B agent may be authorized by the company to deliver lamps at the prices and on the terms stated in the contract. The B agent has no authority to dispose of any of the lamps except as above provided and is not to control or attempt to control prices at which any purchaser shall sell any of such lamps. The agent is to pay all expenses in the storage, cartage, transportation, handling, sale and distribution of lamps and all expenses incident thereto, and to the accounting therefor and to the collection of accounts created. This transportation does not include the freight for the lamps in the consignment from the company to the agent. The agent guarantees the return to the company of all unsold lamps in the custody of the agent within a certain time after the termination of his agency. The agent is to pay over to the company not later than the 15th of each month an amount equal to the total sales value, less the agent's compensation, of all of the company's lamps sold by him, that is, first of the collections that have been made, second of those customers' accounts which are past due. This is to comply with the guaranty of the agent of due and prompt payment for all lamps sold by him from

his stock. Third, the agent is to pay to the company the value of all of the company's lamps lost or missing from or damaged in the stock in his custody. There is a basic rate of commission payable to the agent, and there are certain special supplemental and additional compensations for prompt and efficient service. If the agent becomes insolvent, or fails to make reports and remittances or fails in any of his obligations, the appointment may be terminated, and when terminated either at the end of the year or otherwise, the consigned lamps remaining unsold are to be delivered to the manufacturer. It appears in the evidence that since 1915, although there is no specific agreement to this effect, the company has assumed all risk of fire, flood, obsolescence, and price decline, and carries whatever insurance is carried on the stocks of lamps in the hands of its agents and pays whatever taxes are assessed. This is relevant as a circumstance to confirm the view that the so-called relation of agent to the company is the real one. There are 400 of the B agents, the large distributors. They recommend to the company efficient and reliable distributors in the localities with which they are respectively familiar to act as A agents whom the company appoints. There are 21,000 or more of the A agents. They are usually retail electrical supply dealers in smaller places. The only sales which the A agent is authorized to make are to consumers for immediate delivery and to purchasers under written contract with the manufacturer, just as in the case of the B agents. The plan was of course devised for the purpose of enabling the company to deal directly with consumers and purchasers and doubtless was intended to avoid selling the lamps owned by the company to jobbers or dealers and prevent sale by these middle men to consumers at different and competing prices. The question is whether the company by making such arrangements with those who ordinarily and usually would be merchants buying from the manufacturer and selling to the public are to be treated as agents or as owners of the lamps by reason of the consignment to them under such contracts. If they are to be regarded really as purchasers, then the restriction as to the prices at which the sales are to be made is a restraint of trade and a violation of the Anti-Trust law. A

We find nothing in the form of the contracts and the practice under them which makes the so-called B and A agents anything more than genuine agents of the company or the delivery of the

stock to each agent anything more than a consignment to the agent for his custody and sale as such. He is not obliged to pay over money for the stock held by him until it is sold. As he guarantees the account when made, he must turn over what should have been paid whether he gets it or not. This term occurs in a frequent form of pure agency known as sale by *del credere* commission. There is no conflict in the agent's obligation to account for all lamps lost, missing or damaged in the stock. It is only a reasonable provision to secure his careful handling of the goods entrusted to him. We find nothing in his agreement to pay the expense of storage, cartage, transportation (except the freight on the original consignment), handling and the sale and distribution of the lamps, inconsistent with his relation as agent. The expense of this is of course covered in the amount of his fixed commission. The agent has no power to deal with the lamps in any way inconsistent with the retained ownership of the lamps by the company. When they are delivered by him to the purchasers, the title passes directly from the company to those purchasers. There is no evidence that any purchaser from the company or any of its agents is put under any obligation to sell at any price or to deal with the lamps purchased except as an independent owner. The circumstance that the agents were in their regular business wholesale or retail merchants and under a prior arrangement had bought the lamps and sold them as their owners did not prevent a change in their relation to the company. We find no reason in this record to hold that the change in this case was not in good faith and actually maintained.

But it is said that the system of distribution is so complicated and involves such a very large number of agents, distributed throughout the entire country, that the very size and comprehensiveness of the scheme brings it within the Anti-Trust law. We do not question that in a suit under the Anti-Trust Act the circumstance that the combination effected secures domination of so large a part of the business affected as to control prices is usually most important in proof of a monopoly violating the Act. But under the patent law the patentee is given by statute a monopoly of making, using and selling the patented article. The extent of his monopoly in the articles sold and in the territory of the United States where sold is not limited in the grant of his patent, and the comprehensive-

ness of his control of the business in the sale of the patented article is not necessarily an indication of illegality of his method. As long as he makes no effort to fasten upon ownership of the articles he sells control of the prices at which his purchaser shall sell, it makes no difference how widespread his monopoly. It is only when he adopts a combination with others by which he steps out of the scope of his patent rights and seeks to control and restrain those to whom he has sold his patented articles in their subsequent disposition of what is theirs that he comes within the operation of the Anti-Trust Act. The validity of the Electric Company's scheme of distribution of its electric lamps turns, therefore, on the question whether the sales are by the company through its agents to the consumer, or are in fact by the company to the so-called agents at the time of consignment. The distinction in law and fact between an agency and a sale is clear. For the reasons already stated, we find no ground for inference that the contracts made between the company and its agents are, or were intended, to be other than what their language makes them.

The Government relies in its contention for a different conclusion on the case of *Dr. Miles Medical Company* v. *John D. Park & Sons Company,* 220 U. S. 373. That case was a bill in equity brought by the Miles Medical Company to enjoin Park & Sons Company from continuing an alleged conspiracy with a number of wholesale and retail dealers in proprietary medicines, to induce the persons who had entered into certain agency contracts, to the number of 21,000 through the country, to break their contracts of agency with the Medical Company, to the great injury of that company. The agency concerned the sale of proprietary medicines prepared by secret methods and formulas and identified by distinctive packages and trade-marks. The company had an extensive trade throughout the United States and certain foreign countries. It had been its practice to sell its medicines to jobbers and wholesale druggists, who in turn sold to retail druggists for sale to the customer. It had fixed not only the price of its own sales to jobbers and wholesale dealers but also the prices of jobbers and small dealers. The defendants had inaugurated a cut-rate or cut-price system which had caused great damage to the complainants' business, injuriously affected its reputation and depleted the sales of its remedies. The bill was demurred to, on the ground that the methods set forth in the bill, by which attempt was made to control the sales

of prices to consumers was illegal both at common law and under the Anti-Trust Act, and deprived the bill of any equity. This was the issue considered by the Court.

The plan of distribution of the Miles Medical Company resembled in many details the plan of distribution in the present case, except that the subject matter there was medicine by a secret formula, and not a patented article. But there were certain vital differences. These led the Circuit Court of Appeals (164 Fed. 803) to declare that the language of the so-called contracts of agency were false in their purport, and were merely used to conceal what were really sales to the so-called agents. This conclusion was sustained by certain allegations in the bill inconsistent with the contracts of agency, to the effect that the Medical Company did sell to these so-called agents the medical packages consigned. This Court, however, without reference to these telltale allegations of the bill found in the contracts themselves and their operation plain provision for purchases by the so-called agents which necessarily made the contracts as to an indefinite amount of the consignments to them, contracts of sale rather than of agency. The Court therefore held that the showing made was of an attempt by the Miles Medical Company through its plan of distribution to hold its purchasers after the purchase at full price to an obligation to maintain prices on a resale by them. This is the whole effect of the *Miles Medical* case. That such it was is made plain in the case of *Boston Store* v. *American Graphophone Company,* 246 U. S. 8, 21, in which then Chief Justice White reviewed the various cases on this general subject and spoke of the *Miles Medical* case as follows:

"In Dr. Miles Medical Company *v.* Park & Sons Co., 220 U. S., 373, it was decided that under the general law the owner of movables (in that case, proprietary medicines compounded by a secret formula) could not sell the movables and lawfully by contract fix a price at which the product should afterwards be sold, because to do so would be at one and the same time to sell and retain, to part with and yet to hold, to project the will of the seller so as to cause it to control the movable parted with where it was not subject to his control because owned by another and thus to make the will of the seller unwarrantedly take the place of the law of the land as to such movables. It was decided that the power to make the limitation as to price for the future could not be exerted consistently with the prohibitions against restraint of trade and monopoly contained in the Anti-Trust Law."

Nor does the case of the *Standard Sanitary Manufacturing Company* v. *United States,* 226 U. S. 20, sustain the contention of the Government on the first question. There a number of manufacturers, one of whom owned a patent for enameled iron ware for plumbing fixtures made a combination to accept licenses to make the patented commodities and to sell them in interstate trade to jobbers and to refuse to sell to jobbers who would not agree to maintain fixed prices in sales to plumbers. This was an attempt just like that in the *Miles Medical Company* case to control the trade in the articles sold and fasten upon purchasers who had bought at full price and were complete owners an obligation to maintain resale prices.

We are of opinion, therefore, that there is nothing as a matter of principle or in the authorities which requires us to hold that genuine contracts of agency like those before us, however comprehensive as a mass or whole in their effect, are violations of the Anti-Trust Act. The owner of an article patented or otherwise is not violating the common law or the Anti-Trust law by seeking to dispose of his articles directly to the consumer and fixing the price by which his agents transfer the title from him directly to such consumer. The first charge in the bill can not be sustained.

Second. Had the Electric Company as the owner of the patents, entirely controlling the manufacture, use and sale of the tungsten incandescent lamps, in its license to the Westinghouse Company, the right to impose the condition that its sales should be at prices fixed by the licensor and subject to change according to its discretion? The contention is also made that the license required the Westinghouse Company not only to conform in the matter of the prices at which it might vend the patented articles, but also to follow the same plan as that which we have already explained the Electric Company adopted in its distribution. It does not appear that this provision was express in the license, because no such plan was set out therein, but even if the construction urged by the Government is correct, we think the result must be the same.

The owner of a patent may assign it to another and convey (1) the exclusive right to make, use and vend the invention throughout the United States or (2) an undivided part or share of that exclusive right or (3) the exclusive right under the patent within and through a specific part of the United States. But any assignment or transfer short of one of these is a license giving the

licensee no title in the patent and no right to sue at law in his own name for an infringement. *Waterman* v. *Mackenzie,* 138 U. S. 252, 255; *Gayler* v. *Wilder,* 10 How. 477, 494, 495; *Moore* v. *Marsh,* 7 Wall. 515, and *Crown Company* v. *Nye Tool Works,* 261 U. S. 24, 30. Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure. It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights. *Adams* v. *Burke,* 17 Wall. 453; *Bloomer* v. *McQuewan,* 14 How. 539; *Mitchell* v. *Hawley,* 16 Wall. 544; *Hobbie* v. *Jennison,* 149 U. S. 355; *Keeler* v. *Standard Folding Bed Co.,* 157 U. S. 659. But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell. The patentee may make and grant a license to another to make and use the patented articles but withhold his right to sell them. The licensee in such a case acquires an interest in the articles made. He owns the material of them and may use them. But if he sells them he infringes the right of the patentee, and may be held for damages and enjoined. If the patentee goes further and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, "Yes, you may make and sell articles under my patent but not so as to destroy the profit that I wish to obtain by making them and selling them myself." He does not thereby

sell outright to the licensee the articles the latter may make and sell or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell.

This question was considered by this Court in the case of *Bement v. National Harrow Company*, 186 U. S. 70. A combination of manufacturers owning a patent to make float spring tool harrows licensed others to make and sell the products under the patent on condition that they would not during the continuance of the license sell the products at a less price or on more favorable terms of payment and delivery to purchasers than were set forth in a schedule made part of the license. That was held to be a valid use of the patent rights of the owners of the patent. It was objected that this made for a monopoly. The Court, speaking by Mr. Justice Peckham, said (p. 91):

"The very object of these laws is monopoly and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

Speaking of the contract, he said (p. 93):

"The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

The question which the Court had before it in that case came to it on a writ of error to the Court of Appeals of New York, and raised the federal issue whether a contract of license of this kind, having a wide operation in the sales of the harrows, was invalid because a violation of the Anti-Trust law. This Court held that it was not.

It is argued, however, that *Bement v. National Harrow Company* has been in effect overruled. The claim is based on the fact that one of the cases cited by Mr. Justice Peckham in that

case was *Heaton-Peninsula Button-Fastener Company* v. *Eureka Specialty Company,* 77 Fed. 288. This was a decision by the Circuit Court of Appeals of the Sixth Circuit, the opinion being written by Circuit Judge Lurton, afterwards a Justice of this Court. The question there considered was whether the owner of a patent for a machine for fastening buttons to shoes with metallic fasteners might sell such machines subject to the condition that they should be used only with fasteners manufactured by the seller, the patènted machine to revert on the breach of the condition. The purchaser of the machine was held to be a licensee and the use by him of the unpatented fasteners contrary to the condition to be a breach of contract of the license and an infringement of the patent monopoly.

A similar case came before this Court and is reported in *Henry* v. *Dick Company,* 224 U. S. 1, the opinion in which was also delivered by Mr. Justice Lurton. In that case, a complainant sold his patented machine embodying his invention. It was called the "Rotary Mimeograph." The claims of the patent did not embrace ink or other materials used in working it. Upon the machine, however, was inscribed a notice, styled a License Restriction, reciting that the machine might be used only with the stencil paper, ink and other supples made by the A. B. Dick Company. The Henry Company, dealers in ink, sold to the purchaser, for use in working her machine, ink not made by the Dick Company. This Court held by a majority that the use of such ink by the purchaser was a prohibited use and rendered her liable to an action under the patent law for infringement, and that the seller of the ink was liable as a contributory infringer.

The case was reversed by this Court in the *Motion Picture Patents Company* v. *Universal Film Company,* 243 U. S. 502. The patent in that case covered a part of the mechanism used in motion picture exhibiting machines for feeding a film through the machine with a regular uniform and accurate movement so as not to expose the film to excessive strain or wear. The license agreement contained a covenant on the part of the licensee that every machine sold by it should be sold under the restriction and condition that such exhibiting or projecting machines should be used solely for exhibiting or projecting motion pictures of the Motion Picture Patents Company. The reversal was based on the ground that the grant of the patent was of the exclusive right to use the mechanism

and produce the result with any appropriate material and that the materials or pictures upon which the machine was operated were no part of the patented machine or of the combination which produced the patented result.

The reversal of the *Dick* case and the *Button-Fastener* case by the *Motion Picture Film* case did not carry with it the reversal of *Bement* v. *Harrow Company*. The *Button-Fastener* case was cited in the case of *Bement* v. *Harrow Company* to sustain the decision there by what was an *a fortiori* argument. The ruling in the former case was much broader than was needed for the decision in the latter. The price at which a patented article sells is certainly a circumstance having a more direct relation and is more germane to the rights of the patentee than the unpatented material with which the patented article may be used. Indeed, as already said, price fixing is usually the essence of that which secures proper reward to the patentee.

Nor do we think that the decisions of this Court holding restrictions as to price of patented articles invalid apply to a contract of license like the one in this case. Those cases are: *Boston Store* v. *American Graphophone Company*, 246 U. S. 8; *Straus* v. *Victor Talking Machine Company*, 243 U. S. 490; *Bauer* v. *O'Donnell*, 229 U. S. 1; *Standard Sanitary Manufacturing Company* v. *United States*, 226 U. S. 20; *Bobbs-Merrill Company* v. *Strauss*, 210 U. S. 339. These cases really are only instances of the application of the principle of *Adams* v. *Burke*, 17 Wall. 453, 456, already referred to that a patentee may not attach to the article made by him or with his consent a condition running with the article in the hands of purchasers limiting the price at which one who becomes its owner for full consideration shall part with it. They do not consider or condemn a restriction put by a patentee upon his licensee as to the prices at which the latter shall sell articles which he makes and only can make legally under the license. The authority of *Bement* v. *Harrow Company* has not been shaken by the cases we have reviewed.

For the reasons given, we sustain the validity of the license granted by the Electric Company to the Westinghouse Company. The decree of the District Court dismissing the bill is

Affirmed.